FINANCIAL TIMES

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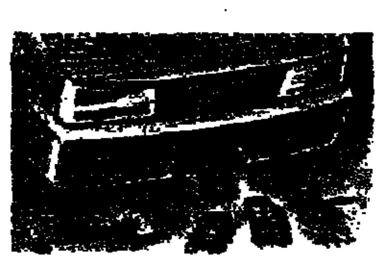


In the factory
Car component makers on site
Management, Page 10

World Business Newspaper http://www.FT.com MONDAY NOVEMBER 4 1996

Kvaerner wins £100m contract for China bridge

A £100m ($163m) Chinese contract to build one of the world's longest suspension bridges has been won by Norwegian shipbuilding and engineering group Kvaerner. The work will be carried out by a UK subsidiary, Cleveland Structural Engineering. The 1.4km road bridge over the Yangtze river in Jiangsu province Work is to be financed under the fourth Sino-UK concessionary finance agreement and is due to open in 1999. Page 18

Ciba in spin-off deal: Swiss drugs and chemicals company Ciba secured a tax-free deal for the spin-off of its chemicals business, which has annual sales of $5.2bn. Page 19

Central Europe heads for faster growth: Central Europe and the Baltic region are heading for faster economic growth, but the timing of the return to growth in Russia and Ukraine remains uncertain, the European Bank for Reconstruction and Development says. Page 2

Stockholm exchange considers merger: The Stockholm stock exchange and Swedish exchange operator OM Group, its biggest shareholder, said they were discussing ways of co-operating, including a possible merger. Page 19

Romanians in presidential vote: Romania went to the polls in the country's third presidential and parliamentary elections since the overthrow of Nicolae Ceausescu in 1989. The centre-right Democratic Convention is expected to win power, but fall well short of a majority. Page 3

Triumph-Adler to raise $66m: German holding company Triumph-Adler is planning to raise DM100m ($66.2m) through a one-for-four capital increase this month to help it finance up to DM500m of acquisitions. Page 19

Call for cheaper Russian energy: Moscow's mayor, Yuri Luzhkov, and many of Russia's business leaders are pressing the Kremlin to cut energy prices, warning that the economy will otherwise be unable to recover. Page 18; A mayor with attitude, Page 16

Miners angry at Spanish closure plan: Unions and political leaders in northern Spain are furious at government plans to force the Asturias region's state-owned coal mines to close in 2002. Page 3

Iraq denies attack by US: Iraq denied a White House claim that US jets patrolling the southern no-fly zone had fired a missile against Iraqi air defence installations. Page 6

GM deal with unions ends strikes: US vehicle builder General Motors concluded a three-year labour agreement with the country's United Auto Workers union, ending a series of strikes that had started to hurt some of the company's most profitable operations. Page 4

Rifkind says Israeli settlements illegal: UK foreign secretary Malcolm Rifkind told Israel that Jewish settlements on occupied territory were illegal and that the option of a Palestinian state in the West Bank and Gaza had to be kept open. Page 6

Pro-China groups lead HK committee: Pro-China groups dominate the committee that will select the head of the Hong Kong government after the territory's return to Chinese sovereignty next year. Page 5

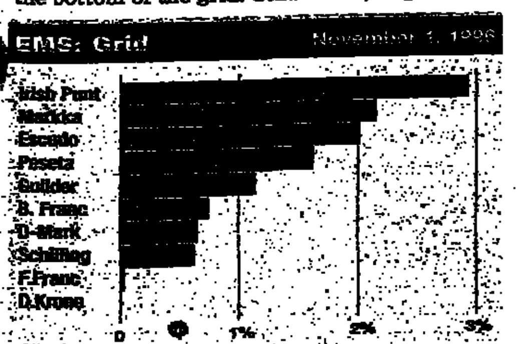
Court reinstates Punjabi government: A Pakistani court reinstated the ousted chief minister and government of Punjab in a setback for prime minister Benazir Bhutto's beleaguered government. Page 5

UK Tories' majority down to 1: The death of an MP in the UK's Conservative party reduced the government's majority in the House of Commons to one. Page 7

Vietnamese Boat people 'held illegally': A British lawyer plans to file a class action for habeas corpus in a Hong Kong court claiming that 4,000 Vietnamese boat people are being illegally detained in the territory. Page 5

European Monetary System: The spread between the strongest and weakest currencies in the EMS grid widened last week. The Irish punt remained the strongest currency, helped by sterling's surge on the exchanges following the quarter-point increase in UK interest rates. The Danish krone replaced the French franc at the bottom of the grid. Currencies, Page 27

EMS: Grid November 1, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lts 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kč70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zl 6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils.750	Portugal (m'land)	Es295	Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00

Transatlantic telecoms alliance is largest ever acquisition by a UK company

MCI agrees to $20bn merger deal with BT

By Nicholas Denton in London

British Telecommunications yesterday unveiled a transatlantic merger with US long-distance carrier MCI Communications which will create the world's fourth-largest telecoms company by sales.

In the largest ever acquisition by a UK company, BT is paying more than $20bn for the 80 per cent of MCI it does not own.

This will create a fused entity called Concert with over £25bn ($40.75bn) in combined revenues and £7.5bn in annual cashflow from operations.

The deal represents the culmination of the mission by Sir Iain Vallance, chairman of BT, to transform the company from a UK state-owned monopoly into one of the world's most dynamic international telecoms companies.

"Concert will be exceptionally well placed to play a leading role in ... the changing global communications market place," he said.

BT is developing the alliance it has had with MCI since 1994, when it paid $4bn for a 20 per cent stake in MCI, and set up a joint venture called Concert Communications to provide seamless international telecoms services to multinational companies.

BT has paid a 30 per cent premium for a full merger to thwart the danger that MCI would merge with another US long-distance operator such as GTE.

MCI disclosed yesterday it had been in merger talks with GTE, but the US company is not expected to enter the fray.

The acquisition – which involves a cash payment of £2.3bn to MCI shareholders and a special dividend for BT shareholders of 35p, costing £2.2bn – will sharply increase BT's indebtedness. Concert will have net debts of £6.6bn compared with BT's £948m in March 1996. A proposed share buyback of 10 per cent of Concert shares after the merger would increase the gearing of debts to assets to 85 per cent.

The merged group will inherit MCI's 13.5 per cent stake in Mr Rupert Murdoch's News Corporation. Although MCI has reportedly considered selling down its stake, the partners in Concert said yesterday they had no immediate plans to do so.

MCI managers, who will take three of the six most senior executive roles, will inject into BT the highly entrepreneurial culture they have developed in breaking AT&T's monopoly over the US long-distance market, where MCI is the main challenger.

Sir Peter Bonfield, BT chief executive, will be chief executive of Concert, and Sir Iain will be one of two co-chairmen. But Mr Gerald Taylor of MCI will have a powerful role as president and chief operating officer of Concert, and his colleague Mr Doug Maine will take the key position of finance director. The merger

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World's largest telecoms companies by sales

Company	Latest full-year sales in $bn
NTT (Japan)	71.9
AT&T (US)	49.1 ¹
Deutsche Telekom (Germany)	43.9
Concert	37.8 ²
France Telecom (France)	28.8
Nynex/Bell Atlantic (US)	26.9 ³
Stet (Italy)	24.5
British Telecommunications (UK)	22.5
Pacific Telesis/SBC (US)	21.7 ³
GTE (US)	19.9
BCE (Canada)	17.9
BellSouth (US)	17.9
MCI (US)	15.3

1 Before demerger of equipment and computer businesses
2 Based on Fleming's figures for consistency. The two companies yesterday claimed combined turnover of $42bn
3 Pro-forma assuming merger

Source: Global Telecoms Database, September 1996, Robert Fleming Securities Ltd

British Telecom chief Sir Peter Bonfield (right) and his counterpart at MCI, Gerry Taylor, announce the two companies' deal in London yesterday
Picture: Ashley Ashwood

Deutsche Telekom in row with investment bank

By Nicholas Denton in London

Deutsche Telekom has excluded Goldman Sachs from a leading role in the flotation of one of its associated companies after a row with the US investment bank over the pricing of Deutsche Telekom's current initial public offering.

It emerged last week that Deutsche Telekom and its partner Ameritech had knocked Goldman out of contention to be global co-ordinator of the $500m initial public offering of Matav, their Hungarian telecommunications company.

Deutsche Telekom explained the exclusion by saying it was "rotating" its business. But Mr Joachim Kröske, the group's finance director and chairman of the privatisation steering committee, told other investment banks Goldman had missed the Matav deal in part because of tensions over Deutsche Telekom's own partial privatisation offering.

Goldman, one of three global co-ordinators of Deutsche Telekom's DM15bn ($9.9bn) initial public offering, had resisted the company's proposed range of DM25-DM30 a share, arguing the price was too rich for many international institutional investors.

Tensions rose when Deutsche Telekom executives saw Goldman's research on the privatisation issue. They were disturbed by the emphasis given to low valuations based on Telekom's earnings.

Deutsche Telekom .... Page 19

Advisers said a confrontation developed between Mr Kröske and Mr Eric Dobkin, the Goldman partner heading its equity capital markets unit.

At a meeting on September 30, Goldman said many international investors would value Telekom at about DM20 a share and argued for the company to keep its options open until it had tested demand.

Mr Kröske conceded Goldman's initial valuations had come as "a little bit of a surprise". But he said discussion about price was normal: "We are fighting for the best ideas. If at the end you have a success, any misunderstandings are forgotten."

Goldman Sachs said: "This is a tempest in a teapot. Goldman Sachs has an excellent relationship with Deutsche Telekom. Our global team is fully committed and dedicated to the success of the largest public offering in history."

By the weekend of October 19, Goldman and the other investment banks agreed to the range of DM25-30.

The disagreement – though not expected to undermine the US marketing effort that begins this week – highlights the divergence of views on the value of Telekom. German retail investors, subjected to a large marketing campaign in recent months, appear prepared to pay a higher price than many international fund managers.

The dispute over price – one of several between Telekom and its investment banks – is a sign that the share sale has been dogged by infighting.

The reaction from presentations to investors, and the premium on the grey market in Telekom shares, indicates the offering will be oversubscribed even if the company opts for the higher DM30 price.

A Clinton win may not include Congress

By Jurek Martin in Washington

President Bill Clinton's expected re-election tomorrow may not be accompanied by his Democratic party regaining control of both houses of Congress, according to late polls and other reports from around the country.

The president still leads his Republican opponent Mr Bob Dole by about 10 points in most national surveys. But he may be pushed to get the 50 per cent of the popular vote he wants to claim an unquestioned mandate for a second term.

Senator Chris Dodd of Connecticut, co-chairman of the national Democratic party, said yesterday he was "not surprised it is closing", because "the negativism of the Dole campaign is having its effect".

But he claimed most of the drain away from Mr Clinton was going not to Mr Dole but to Mr Ross Perot of the Reform party. That was borne out by a poll yesterday by

Continued on Page 18
Dole tries to beat odds, Page 4
FT Guide to elections, Page 8

Gehe considers cash bid for Lloyds Chemists

By Christopher Price in London

Gehe, the German pharmaceuticals distributor, is this week expected to launch a cash bid for the UK's Lloyds Chemists.

It would top the rival £644m ($1.05bn) cash and share offer made by UniChem, also of the UK, two-and-a-half weeks ago.

A bid at over 505p a share – valuing the high street drugs chain at about £657m – is likely, with the possibility of Gehe going as high as 525p a share in order to deter UniChem from improving its offer. UniChem's offer, which is closely tied to its share price, is worth about 495p a Lloyds share. Lloyds' shares closed at 516p on Friday.

The German group faces a double dilemma in deciding the level at which to pitch its offer.

First, if it is perceived to have launched a knockout blow in the long-running bid battle, the UniChem share price is likely to rise as investors will no longer be discounting a large rights issue.

This in turn will allow the UK company to mount a riposte. Second, a high offer from Gehe would run counter to its well-publicised concerns over Lloyds' value following the company's recently reported fall in profits.

Conversely, because it is so reliant on issuing paper to fund its bid, UniChem will be constrained by the performance of its share price during the crucial offer periods.

UniChem shares closed at 251.5p on Friday, slightly higher than when it launched its latest bid.

Gehe must make a bid for the high street chemists chain by this Friday, which was the deadline set by the UK government on October 18 when it approved the undertakings made by UniChem and Gehe to sell Lloyds' wholesale drugs business.

Rival offers from UniChem and Gehe were referred to the competition authorities in March.

The prize for both suitors is Lloyds' 920-strong high street chain.

With their own retail interests, victory for either Gehe or UniChem would see them overtake Boots as the UK's largest chemist.

CONTENTS

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EBRD forecasts faster economic growth

By Anthony Robinson, East Europe Editor

Central Europe and the Baltic region are heading for faster economic growth next year, but the timing of the long-delayed return to economic growth in Russia and Ukraine remains problematical, the European Bank for Reconstruction and Development (EBRD) says in its latest transition report.

Next year's growth in the central Europe region depends largely on expected higher economic activity in the main export markets of western Europe.

"After seven years of reform the longer-term issues are becoming increasingly clear. Privatisation has moved ahead with impressive speed. Attention is now focused on financial institution building and infrastructure investment," said Mr Nicholas Stern, EBRD's chief economist.

"Restructuring the deformed infrastructure pattern inherited from the communist past requires better finance. That requires higher domestic savings and highlights the need for the development of private pension and insurance funds and better banks," he added.

Next year's forecast of a revival in growth follows an expected dip to 4 per cent this year from 5.2 per cent in 1995, reflecting both lower export-led growth and fiscal tightening in Hungary and Bulgaria. Slower growth has been accompanied by falling inflation, except in Bulgaria, Romania and Albania, which all suffered higher inflation.

Poland remains the only country where total output is higher than in 1989. But output has been rising in most of central Europe for the last three years and has resumed in five former Soviet republics.

Higher growth should be sustained by higher labour productivity, which rose between 10 and 20 per cent in Bulgaria, the Czech Republic, Hungary, Poland and Romania last year. "Major industrial restructuring will be required, however, if productivity is to continue to rise," the report warns.

In spite of higher productivity and better quality output, the trade deficits of several central European economies, especially the Czech Republic, grew in 1996. This mainly reflects higher imports of capital goods and declining export competitivity, especially in Poland, Russia, the Czech Republic and Slovakia, which have experienced strong currency appreciation.

Increased financial stability helped trigger a sharp rise of foreign direct and portfolio investment into central Europe, the Baltics and the countries of the Commonwealth of Independent States (CIS) to a record cumulative total of $45bn in 1995. A further increase is expected for 1996, according to preliminary data.

Hungary, which has taken the lead in privatising utilities, keeps top position as recipient of foreign capital. "Hungary has achieved the most comprehensive privatisation of utilities and been most ambitious in introducing private sector finance and risk-taking in road construction," the report notes.

Editorial comment, Page 17

Hardest part to come for East Europe

The hardest part of the task of transition to a market economy is still to come for the 450m people in countries of the former Soviet bloc. That is the tough message from the latest transition report of the European Bank for Reconstruction and Development (EBRD).

"Great strides have been made by most countries in the region - but the challenges that remain are persistent and difficult. Some of the more difficult tasks at the heart of transition have yet to be tackled," says the report

A few laggards, including Belarus and some of central Asian countries, have hardly embarked upon systemic change. But most former communist countries have liberalised prices and foreign exchange, carried out extensive privatisation and started on the longer-range institutional and structural reforms which are the main focus of this year's report.

Some, such as the Czech Republic, Poland and Hungary, have gone so far along the transition path that they have been accepted into the Organisation for Economic Co-operation and Development (OECD).

But all still face a "core of difficult tasks" which must be tackled to create functioning financial, legal, banking and other institutions needed to encourage long-term savings through insurance, pension and other funds which are non-existent or exist in embryonic form.

For although foreign direct and portfolio investment is rising fast, the investment needed to stimulate private economic development and revamp the distorted and largely worn out infrastructure inherited from Soviet times will have to be financed mainly from domestic savings.

The scale of the task of infrastructural renewal is daunting.

Central Europe and CIS: Economic Forecasts for 1997 (%)

	Growth forecasts			Inflation forecasts		
	Av.	EBRD	EIU*	Av.	EBRD	EIU*
Albania	7.2	9.0	6.0	9.4	10.0	8.0
Bulgaria	1.5	2.0	3.0	80.2	74.0	65.0
Croatia	5.1	5.0	4.0	6.2	6.0	3.5
Czech Republic	5.7	5.3	4.7	8.4	8.2	8.2
Estonia	4.9	4.0	3.3	20.4	21.0	20.0
FYR Macedonia	5.0	5.0	5.0	5.5	3.0	8.0
Hungary	3.2	3.0	3.5	17.6	17.0	19.0
Latvia	3.4	3.0	2.0	14.2	16.0	15.0
Lithuania	3.6	4.0	2.0	23.0	24.0	25.0
Poland	5.1	5.0	5.2	17.4	18.0	18.0
Romania	4.3	3.5	4.5	29.4	35.0	27.0
Slovak Republic	4.7	4.5	4.1	6.9	6.5	6.3
Slovenia	4.2	3.5	4.0	8.5	7.0	8.5

	Growth forecasts			Inflation forecasts		
	Av.	EBRD	EIU	Av.	EBRD	EIU
Armenia	7.0	7.0	6.5	16	14	10
Azerbaijan	9.1	4.0	4.0	17	12	20
Belarus	2.8	2.0	3.0	43	40	50
Georgia	11.2	10.0	–	20	15	–
Kazakhstan	3.2	1.0	3.0	23	20	25
Kyrgyzstan	5.6	8.0	3.0	23	20	20
Moldova	5.9	4.0	6.0	16	15	12
Russia	2.0	3.0	3.0	27	22	35
Tajikistan	-1.6	-3.0	-5.0	250	150	350
Turkmenistan	3.7	3.0	5.0	306	250	400
Ukraine	0.2	1.0	-1.0	48	50	45
Uzbekistan	2.7	1.0	2.0	38	30	35

* Economist Intelligence Unit forecast for FYR Macedonia is social instead of GDP
Source: European Bank for Reconstruction and Development

The old system placed a premium on energy-intensive heavy industry. It demanded the transport of inputs hundreds and often thousands of kilometres by rail between giant industrial plants, ignored the needs of consumers, paid no attention to costs and imposed arbitrary tariffs subsidised from the notional profits of state-owned enterprises. Investment in steel and energy production was massive; telecommunications were ignored.

The wasteful and inefficient system was also highly polluting and largely obsolescent, as maintenance and upgrading were cut to a minimum once investment was in place.

"The legacy is tragic. But a well functioning infrastructure with good transport links and telecommunications is essential for a devolved, market-orientated economy," says Mr Nicholas Stern, EBRD's chief economist.

"Roughly one third of the EBRD's investments go into infrastructure investment and another third into the financial sector. The aim is not only to encourage privatisation but above all to ensure that utilities are run on commercialised lines, even if they remain state-owned."

Foreign investors have been most attracted by the profit potential in upgrading telecoms. The most neglected area under communism has become the highest priority for the new business class spawned by the reforms which have placed well over 50 per cent of the economy into private hands in most of the region in just seven years.

Privatisation and foreign investment have been slower in other sectors, apart from in Hungary, which has played a leading role in opening its utilities to private investors. Over the last two years Hungary has sold off gas and electricity generators and distribution companies, water companies and telecoms and attracted foreign investors to help finance new motorway toll-road construction.

The scope for such investment is huge. Poland alone plans to invest over $8bn in new motorways over the next 15 years.

But the key message of this year's report is the need *to mobilise household* savings and move from near-bankrupt pay-as-you-go pensions and health systems to funded life and health insurance and pension funds.

"Aggregate saving rates have shown a dramatic decline, with risk of further decline unless policies are implemented to reverse this downward trend," the report says. "*Governments can* make, and some countries have made, important contributions to the development of contractual savings by establishing supportive legal and regulatory frameworks and by clarifying the tax treatment of these institutions," it adds.

The report highlights such reforms as the key to developing financial markets and banking institutions and the stream of savings required to finance the rising investment on which future growth will depend. They could also help to create the economic underpinnings for what is still a fragile democracy in many of the countries.

Anthony Robinson

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EUROPEAN NEWS DIGEST

Lagardère chief faces probe

The controversy over the French government's handling of the sale of the Thomson electronics group looked set to escalate yesterday after it emerged that Mr Jean-Luc Lagardère, head of Lagardère, the selected buyer, was under formal investigation for alleged misuse of the company's assets. The disclosure, which comes at a highly embarrassing time for the government, was made by Mr Lagardère himself in an interview with Le Figaro, the *Paris* newspaper.

Lagardère said yesterday there was no risk of Mr Lagardère having to relinquish responsibilities or be put in prison as a result of the probe. It said the move "changes nothing" about the Thomson takeover plans.

The decision to place Mr Lagardère under investigation is the result of a complaint lodged by a small shareholder in the group in December 1992. This is thought to relate to the activities of Lagardère Capital & Management, a management company owned by the Lagardère family, which owns 4.8 per cent of the shares in the Lagardère group. *David Owen, Paris*

Danish row over Rushdie

Denmark's centre-left minority coalition government may face a motion of no confidence in its maladroit handling of a planned visit to Copenhagen by the UK author Mr Salman Rushdie, who is under sentence of death by an Iranian *fatwa*. The government announced last week it would not allow Mr Rushdie to enter the country to receive a literature prize on November 14, as it could not guarantee his safety. After protests, Mr Poul Nyrup Rasmussen, the prime minister, said the government had invited the author to Denmark to receive the prize, but not on the planned date.

Opposition leaders are expected to press the prime minister in parliament on Wednesday on whether the government had planned all along to invite Mr Rushdie on an alternative date, or had originally intended to block the visit altogether. *Hilary Barnes, Copenhagen*

Reformist leads in Bulgaria

First indications from Bulgaria's presidential election *run-off yesterday showed* voters had handed a decisive victory to Mr Petar Stoyanov, opposition candidate, over his rival from the ex-communist ruling party. A telephone exit poll by the independent Fakt agency gave Mr Stoyanov, a reformist lawyer, 63 per cent to 37 per cent for Mr Ivan Marazov, the culture minister. The poll of 1,060 voters across the country was *broadcast by private* Darik radio. *Reuter, Sofia*

Rump Yugoslavia votes

Voters in Serb-led rump Yugoslavia yesterday went to the polls for the first time since the end of the war in Bosnia and the lifting of sanctions – to choose between the leftist coalition of President Slobodan Milosevic and the four-party opposition coalition. By early evening, turnout was around expectations, reaching 47 per cent four hours before polls closed. *Laura Silber, Belgrade*

■ A leading Ukrainian businessman, Mr Evheny Sherban, was assassinated yesterday at the airport in Donetsk, his home town and capital of the Donbass region. Mr Sherban headed a trading company called Aton and held a seat in the Kiev parliament. *Matthew Kaminski, Kiev*

Launched June 1980

NEWS: EUROPE

Nato draws up its Bosnia troop commitment

By Laura Silber in Belgrade

Nato military commanders are today putting the finishing touches to a blueprint for next year's deployment in Bosnia with alliance members locked in conflict over the US-sponsored programme to arm the outgunned Moslems and Croats.

Nato ambassadors will this week consider what size force to deploy. International officials say the most under discussion is a deterrent force substantially reduced from the current 55,000-strong Implementation Force (Ifor).

"All major actors must have two battalions in order to be a major actor in Bosnia. This means absolutely nothing about Bosnia, but in order to play a role in the shaping of European security structures," said a western official.

For the first time next year Germany will be among the biggest troop contributors, probably outnumbering the French, reflecting Germany's concern to show that it is now a full player in European security.

While Washington so far has refused to commit itself to leaving troops on the ground next year, US officials privately say they expect about a 5,000-strong force to remain in Bosnia.

"It is key who will participate in the force. If the US is in, then Nato and the other major allies are in as well. Then other countries want to participate because Bosnia has become a proving ground for Nato members and would-be members," said Mr Mohammed Sacirbey, Bosnia's ambassador to the UN. "It is possible to end up with a commitment of forces that is greater than the situation on the ground would dictate."

While the Bosnians want an international force on the ground, they are concerned about building their army.

Mr James Pardew, US envoy for the $300m Train and Equip programme, says: "A lot of European policies seem to accept partition. But this would create this beleaguered Moslem enclave which would turn to radicals for support. We are trying to reduce radical influence. If we pull out, there will be a vacuum, which Iran will fill."

"Train and Equip," said a European diplomat, "does not resolve the problem. We need to get the arms out of the equation, not in."

It seems that the Americans believe they will have more leverage over the Bosnians with promises of deliveries of weapons.

The biggest single shipment of military hardware, about $88m, including M-60 tanks and M-111 armoured personnel carriers, so far has not been delivered because of a series of political issues including US demands for the sacking of Mr Hasan Cengic, Bosnia's hardline Moslem defence minister.

In an interview on Bosnian television, Mr Pardew made clear to Bosnian citizens that they faced a choice between the west and Iran.

European diplomats and military officials prefer to emphasise the arms reduction agreement reached last June. They oppose Train and Equip, convinced that only the Moslems have reason to take up arms in the future.

In addition, said one officer, "by the end of the war the Serb army was in bad shape, they were losing. When you talk about the imbalance in military hardware, you must take into account that many of their tanks don't work."

German banks train hard for Emu

Andrew Fisher reports on the widespread preparations for the introduction of the euro

Germany's big banks are treating the approach of European economic and monetary union almost like a countdown to the Olympics, with the vital difference that Emu is designed to be permanent.

They are training staff, writing computer programs, analysing markets, advising customers and spending money – all with around 800 days to go until the January 1, 1999 deadline.

This may seem like a long time, but banks are taking no chances. Deutsche Bank, Germany's biggest bank, is working on the probability that European economic and monetary union will go ahead as planned, most likely with a small number of participants led by Germany and France.

Thus it is putting its full weight – and more than DM300m ($200m) – behind the planned move to the euro, the single European currency.

In its twin-towered headquarters in Frankfurt and branches around the country and across Europe, officials are working in teams and task forces to ensure the bank is ready. It has identified as many 3,500 separate actions, from the tiniest amendments in software and documentation to large-scale changes in products and services, that will have to be taken ahead of Emu.

"Even if there was only a small chance of Emu going ahead, we would still have to prepare for it," says Mr Stephan Schuster, responsible for basic policy issues at Deutsche Morgan Grenfell, the investment banking operation.

This is a dilemma faced by all banks: while forging ahead with costly and time-consuming preparations for Emu, they do not yet know whether it will start on time, which countries will join and how strictly the entry criteria will be interpreted.

Nor are banks happy with the low-key way the Bonn government has so far been selling Emu to a mostly lukewarm public. "We have to overcome people's anxieties," says Mr Heinrich Rastetter, involved in retail banking preparations. "Banks are having to fulfil a role that normally belongs to politics. We have to persuade customers to believe in the euro and its future stability in a way that goes beyond banks' normal business."

Deutsche Bank began preparing for the euro last year. "We started early because we are not aiming just for a simple switch from the D-Mark when Emu takes place," says Mr Gerhard Singer, in charge of the bank's organisational preparations. "We are taking currency union very seriously as a basic change in the market and we want to adjust to this new market."

The shape of markets, the way business is done and investment strategies are all set for considerable changes after Emu. "We want to take into account as early as possible what the customer wants," adds Mr Singer. Thus German private and public banking associations agreed earlier this year on the information to be contained in banks' payments transactions, whether for accounts of companies or private customers.

Bank payments transaction data will include the D-Mark as well as the euro. Banks will have to see that both are included, to provide both for customers who want to use the euro from the start and for those who prefer to wait until the new currency is widely distributed from 2002.

Thus payments will be possible in D-Marks into euro accounts and vice-versa. Deutsche Bank has 26 types of payments link with customers, including cash machines, electronic banking and direct connections with big corporate clients. "All these technical interfaces have to be changed," says Mr Singer.

> 'Banks are having to fulfil a role that normally belongs to politics. We have to persuade customers to believe in the euro and its future stability in a way that goes beyond banks' normal business'

After payments, the second biggest area of change is securities. German banks are due to agree later this year on a common method of transferring securities business into euros. They want the government to state as soon as possible whether its existing bonds will be denominated in euros when Emu starts – as will happen in France – as well as future issues.

Also to be fixed is the way share quotations are switched into the new currency to avoid awkward amounts resulting from the conversion rate.

Much of the preparation in securities will affect investment banking, where around 90 different Emu-related projects are under way, Mr Schuster says. These include the design of front-end computer screens for fixed-income trading, valuation methods, arbitrage models and the intensive training needed for sales and other staff.

Training, along with customer advice and marketing will be among the most time-consuming of the preparations, across the whole bank, accounting for half its total Emu investment.

As well as having their nerves soothed about Emu, for example, big private clients will be advised about where to invest their money - in currencies of likely participating countries or, if they think the single currency is a non-starter, in D-Marks. "We reckon equities will certainly benefit under Emu," says Mr Hubertus Väth, responsible for private asset management.

"With one currency, asset allocation will be decided more by industrial sector than by country." Other customers are likely to be more concerned about what happens to their life insurance policies and pensions.

On the corporate side, big companies are well advanced in their preparations. Deutsche Bank has also held special workshops for such groups as Siemens, Daimler-Benz and BMW, tailored to their needs. Smaller companies have generally made less progress while local authorities are far behind. It is not only the public which is finding it hard to come to terms with the D-Mark's planned demise.

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Emil Constantinescu, opposition candidate, being greeted by supporters in Bucharest yesterday Reuter

Hard-fought struggle in Romanian election

Romania went to the polls yesterday in the country's third presidential and parliamentary elections since the overthrow of Nicolae Ceausescu's regime in 1989, Virginia Marsh reports from Bucharest.

Opinion polls published before the end of campaigning last Thursday suggested the centre-right Democratic Convention, the main opposition group, would win power for the first time but would fall well short of a majority.

President Ion Iliescu, who has held office since the ousting of Ceausescu, is expected to go through to a run-off in the presidential race against the Convention's Mr Emil Constantinescu, an academic, on November 17.

Turnout was high with 57.5 per cent of the electorate voting by 6pm, three hours before polling stations were due to close. However, the poll was hit by problems including inaccurate voting lists.

Spanish closure plan angers miners

By David White in Madrid

Unions and political leaders in the Asturias region of northern Spain have reacted furiously to government proposals which would force the region's state-owned coal mines to close completely in 2002.

The outline plan was decribed by a leading local senator for Spain's ruling Popular party, Mr Isidro Fernández Rozada, as "a stab in the back".

Mr Josep Piqué, industry minister, was quoted as having told regional journalists the government planned to stop subsidising coal mines in six years. This would mean closure for Hunosa, the state group now employing 9,300, which has a strong tradition of militant trade unionism.

Compensation for the region would be in the form to a Pta70bn ($547m) fund for reindustrialisation of the coalmining areas, paid over a three-year period. The money would come from the proceeds of the government's privatisation programme.

The closure threat has put local PP leaders, who last year ousted the Socialists from their stronghold in the regional government, on the spot. Mr Piqué was reported to have said that the regional president, Mr Sergio Marqués, already knew of the plans. Mr Marqués retorted: "If Josep Piqué said that, he is lying."

Unions said they would not be provoked into precipitate action. But the Communist-led Workers' Commissions stated firmly it would not accept the closure of Hunosa or any other state company.

Pit shutdowns by the previous Socialist government brought a storm of protests five years ago, when the company still employed 18,500.

Dole tries to beat odds in Las Vegas

By Patti Waldmeir in Las Vegas

US ELECTIONS November 5

It was an impressive display of mind over matter: after 41 sleepless hours, a remarkably energetic Mr Bob Dole, the Republican presidential candidate, swept into a Las Vegas casino just before 2am yesterday to rally his campaign troops.

Running on adrenalin, fast food and the desperation born of a large opinion poll deficit, Mr Dole is staging a 96-hour campaign marathon until tomorrow's election. "We're going to go round the clock, round the clock, round the clock to win this," he told eager crowds at some of the 16 campaign stops which preceded Las Vegas. But when he stepped on to the stage at the MGM Grand Casino at 1.45 on Sunday morning, he told the Las Vegas crowd simply to "Bet on Bob Dole".

"We're not going to roll the dice or anything like that," he said, anticipating all the obvious jokes about last-minute gambles on victory. For him, the gamble has already paid off: the idea of a 96-hour campaign blitz – the longest in electoral history – has captured the headlines which have so long eluded him.

Public attention may border on the morbid. Like spectators at a high-speed car race, many are merely waiting for the candidate to crash. However, the television networks are giving it top billing, and Mr Dole has pushed his rival, President Bill Clinton, into second place on the newscasts.

To achieve that, Mr Dole had to find a place to assemble a large crowd in the middle of the night. Las Vegas was perfect for his purposes: it keeps gamblers' hours. It is a city where the line between fantasy and reality is constantly blurred, where statues speak, pirates live and jungles bloom in the desert. In Las Vegas, everything is possible: people go there because they think they can beat the odds.

The eager Dole crowd which packed the MGM Grand ballroom was counting on their candidate to defy the opinion polls – which show him trailing by double digits on the eve of election day – just as he defied his age by staying up for two consecutive nights to greet them. All expressed admiration for his endurance: though his voice was hoarse, his speech more coherent and forceful than normal.

Those who looked for signs of fatigue found them easily among his entourage: the normally radiant Mrs Elizabeth Dole, the candidate's wife, stood blank-eyed and swaying behind him, her immaculate coiffure deflated by lack of access to a hairdresser. Mr Dole's travelling press corps appeared bleary-eyed and grim. Hair was unwashed, chins unshaven, and mascara smeared. The only one clearly enjoying the ordeal was Mr Dole himself.

His endurance race has doubtless caught the attention of voters, but he may struggle to translate that into votes. In the cavernous MGM Grand Casino, thousands of holidaymakers sat gambling in blissful ignorance of the candidate's presence.

Mr Dole's surge of energy will probably come too late to convert them. But at least it means that if he loses, he will go down fighting.

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Commerce fuels US-Jakarta links

Many believe business, rather than campaign cash, has swayed Clinton

In the controversy over fundraising by the Clinton campaign, Republicans have been on the hunt for links between campaign contributions provided by sinister Asian bagmen and the administration's foreign policy.

Indonesia has come under particular scrutiny. President Bill Clinton has for years had close ties to the Lippo Group, an Indonesian conglomerate with a bank in Little Rock, Arkansas. Several donations to Democratic funds from individuals connected with Lippo have been reported in the US press.

One of the favoured charges – detailed in the Los Angeles Times – is that President Bill Clinton dropped a complaint against Indonesia's workers' rights practices to satisfy Indonesian backers.

"Heavy money plus top-level persuasion provides basis to believe that American foreign policy was improperly influenced by the back-channel dealing of Clinton's 'Asian connection'," wrote Mr William Safire, the New York Times columnist.

However, the labour and human rights groups which brought complaints against Indonesia in the first place, while fiercely critical of the administration's change of policy, argue strongly that it was not connected with campaign financing.

Nor do they believe, as many have suggested, that Mr Clinton's warm welcome of Indonesia's President Suharto last year at the White House was bought and paid for by campaign cash. They do think, however, that the administration has thrown away an opportunity to help improve the lot of Indonesian workers.

Helping workers was the aim of a 1984 amendment to the Generalised System of Preferences, which gives duty-free entry to the US market for many developing country imports. The amendment – similar to one approved by the European Union last year – said the US should deny GSP benefits to countries which failed to improve worker rights.

The Reagan and Bush administrations made scant use of the amendment. But labour expected more from Mr Mickey Kantor, Mr Clinton's first trade representative. Indeed, the trade representative's office initially made active use of the GSP to demand progress on workers' rights in a number of countries.

Indonesia was a prime target for human rights groups, who say the military has a long record of beating up and detaining organisers of independent unions. On June 25 1993 Mr Kantor announced an "action plan" to "help" Indonesia meet international standards.

"The Indonesia case was one of the most encouraging," said Mr Mike Jendrzejczyk, Washington director for Human Rights Watch/Asia. "No one had ever before sent a team to Jakarta to engage in wide-ranging discussions with NGOs [non-governmental groups], the labour movement and the government. The Indonesians were worried. It would have been such a black eye if the US were to suspend its GSP on labour rights grounds."

In February 1994 labour and human rights activists were stunned when Mr Kantor announced that the "review" of Indonesia's worker rights would be "suspended" because Jakarta had promised to allow the formation of local unions, reduce the role of the army in controlling labour activity and raise the minimum wage.

Complaining that the review should have been continued until the promises were implemented, the International Labour Rights Education and Research Fund labeled Mr Kantor's decision "yet another victory of national security and commercial interests over human rights".

Of Jakarta's three promises, only the last has been realised, according to the activists. In fact, with no concern for economic consequences, Indonesia recently cracked down on over 200 peaceful political and labour activists, imprisoning Mr Muchtar Pakpahan, leader of Indonesia's only independent labour union.

Labour and human rights officials believed then – and still do – that Mr Clinton caved in to business interests just as he did later in 1994 when he omitted human rights from consideration in renewing China's Most Favoured Nation trade status.

Trade – breaking down market barriers and creating US jobs – was, and still is, at the centre of the president's economic and foreign policy. Indonesia is one of the Commerce Department's "big emerging markets" and a target for US contracts.

Critical moment: Clinton looks on as Suharto shakes hands with his Chinese counterpart Jiang Zemin at the 1994 Apec meeting in Bogor, Indonesia. The president was anxious to avoid attempts to exclude the US from a free trade area *Reuter*

Typical of the tremendous pressure on Mr Kantor and the White House was a plea from Mattel Toys. "The Indonesian operations, which primarily manufacture Barbie, just came onstream last year," the company said in a 1993 letter to Mr Kantor. "One of the principal reasons for undertaking this major investment in Indonesia was to reduce the company's reliance on our China operation, given the continuing threat to the latter's MFN status."

Apart from company pressure, there were reasons for the Clinton administration to bring the Indonesian case to a close. At the end of 1993 Mr Clinton brought Asian leaders to Seattle for a summit where he presented his vision for "a new Pacific community".

In January 1994, the White House began looking ahead to the next meeting of Asian leaders in Bogor, Indonesia. The aim was to head off Malaysian attempts to exclude the US from a free trade area which would include only countries of the Association of South-east Asian Nations (Asean) and Japan. The White House had to have Indonesia's co-operation; the labour rights case was taken out of Mr Kantor's hands and brought into the White House.

Until the past few weeks, Republicans have been generally silent about Mr Clinton's actions on workers' rights. Even harsh critics say his actions on Indonesia have been sound.

"President Clinton has shown unusual competence in his handling of Indonesia," a former senior official in the Bush administration said. "It is difficult to strike a balance between human rights and commercial interests, but the Clinton administration has stumbled on a sensible policy."

Human rights activists disagree. "They have reverted to practices we saw under previous administrations," said Mr Pharis Harvey of the International Labour Rights Education & Research Fund. "We see arbitrary decisions unrelated to facts of the case, suspension of reviews that ignore ongoing abuses and a failure to take up cases where there is evidence of abuses that need review. For a time there was improvement, but that time is past."

Even the activists reluctantly agree, however, that Indonesia is ascending into the ranks of nations – such as Saudi Arabia, Israel and Russia – that are handled delicately by Washington for their strategic, commercial and political importance. But not because of campaign cash.

Nancy Dunne and Afshin Molavi

Union deal ends dispute at GM

By Richard Waters in New York

General Motors' US assembly operations are expected to return rapidly to normal this week following the conclusion at the weekend of a new three-year labour agreement with the country's United Auto Workers union.

The conclusion of the talks early on Saturday came more than five days after a UAW strike deadline, and after selective stoppages had started to hurt some of the company's most profitable operations.

Last week, a strike brought production to a halt at a GM plant in Janesville, Wisconsin, which builds its highly profitable Suburban sports utility vehicles.

Agreement had seemed likely in recent days after indications that they were in accord on most issues of principle. However, the final resolution came only after several round-the-clock bargaining sessions.

Immediate details of the agreement were not made available pending a vote by the union's 215,000 members at GM. It is understood, however, to accord in all significant respects with earlier agreements by Ford Motor and Chrysler. These involved guarantees for the jobs of 95 per cent of current union members, but with escape clauses that would allow the companies to cut workers in exceptional circumstances.

The labour agreement has been seen as an important step in GM's efforts to rebuild its North American business. After big losses in the early 1990s, the company has returned to profit there, but remains less efficient than its rivals, putting it under greater pressure to cut costs.

The accord with the UAW is believed to give GM the power to dispose of some of its less profitable parts-making factories.

Pro-Beijing groups and business chiefs dominate HK committee

By John Ridding in Hong Kong

Pro-China groups and local business leaders have emerged as the dominant forces in the committee which will select the head of the Hong Kong government after the territory's return to Chinese sovereignty on July 1 next year.

The 400-member Selection Committee, established in Beijing at the weekend, will also decide membership of a provisional legislature, which Beijing plans to install in place of the existing elected Legislative Council.

According to participants, a *decision on the chief* executive, as the post-colonial governor will be known, is expected on December 11. The composition of the provisional legislature is due to be revealed a few weeks later.

Chinese officials said that the formation of the Selection Committee, which comprises Hong Kong residents, marked a crucial step in the transfer of sovereignty. Describing the process as fair and democratic, they claimed that the body drew representation from across Hong Kong society.

"The members are shouldering a great historic mission," said Mr Qian Qichen, foreign minister. "This is a very broad based representative committee," added Mr Chen Ziying, deputy director of China's Hong Kong and Macao Affairs Office.

In Hong Kong, however, the process came under fire from pro-democracy groups. The Democratic party, the largest group in the legislature, dismissed the Selection Committee as an "inner circle" of pro-Beijing figures and reiterated its opposition to the scrapping of the existing legislature. Two pro-democracy activists were expelled from Beijing at the weekend as they sought to submit a petition criticising the selection procedures.

Among the 400 members of the Selection Committee, the pro-China Democratic Alliance for the Betterment of Hong Kong (DABHK) and the Chinese General Chamber of Commerce are strongly represented. So, too, are local business magnates, with Mr Li Ka-shing, head of Cheung Kong, and Mr Lee Shau-kee, head of Henderson Land, among several property tycoons on the body.

Political commentators in Hong Kong pointed to the prospect of factionalism within the committee and said its membership favoured two of the four serious contenders for the post of chief executive. Mr Tung Chee-hwa, the shipping tycoon, has strong backing in the Chinese Chamber of Commerce, while Sir Ti Liang Yang, the former chief justice, is thought to have backing from the DABHK and the Federation of Trade Unions.

Composition of the body was decided in a secret ballot by members of the Preparatory Committee, the 150-member Beijing-appointed group which is overseeing the handover. A total of 60 of the 400 seats were reserved for delegates to China's National People's Congress and appointees by local deputies of the Chinese People's Political Consultative Conference, an advisory body.

More than 1,000 Hong Kong demonstrators yesterday marched to the local headquarters of the Xinhua news agency, Beijing's *de facto* embassy in the territory, demanding the release of political dissidents in China, writes John Ridding.

The protest follows the jailing last week of Mr Wang Dan, the Chinese political activist, who was sentenced to 11 years in prison after being found guilty by a Beijing court of "conspiring to subvert the government". In Hong Kong, fears of restrictions on freedom of expression have been fuelled following warnings by Chinese officials that the territory's residents must not interfere with mainland affairs or criticise the Chinese leadership after next July's transfer of sovereignty. Concerns were heightened when Mr Qian Qichen, foreign minister, recently said Hong Kong residents should not commemorate the anniversary of the June 1989 suppression of pro-democracy protests in Beijing.

Vietnamese boat people 'held illegally'

By Jeremy Grant in Hanoi

A British lawyer who has long defended Vietnamese boat people held in Hong Kong camps said yesterday that she planned this week to file a class action for *habeas corpus* at a court in the territory, claiming that 4,000 boat people are being illegally detained.

Ms Pam Baker, who is based in Hong Kong, helped engineer the release of more than 100 detainees in a similar case earlier this year. She said she was awaiting affidavits from about 30 boat people before going ahead.

The planned move comes as Britain is trying to empty the camps of boat people ahead of the resumption of sovereignty by China next July. Britain and Vietnam continue to disagree over the fate of several hundred boat people whom Hanoi refuses to take back on the grounds that they are non-nationals.

Vietnam's position is the main sticking point in an otherwise smooth repatriation process that has recently seen between 1,500 and 2,000 boat people sent home monthly. China has said it wants no boat people left in the camps by the handover and Britain is confident all will be sent home by then.

The 4,000 in Ms Baker's planned legal move have not yet been approved for return by Hanoi, which cites doubts on verifying personal details.

Boat people detained in camps protest at Hong Kong's forced repatriation policy by setting light to buildings and holding rooftop demonstrations earlier this year *Reuter*

That number also includes several hundred it has already rejected on grounds they are not Vietnamese. Most are ethnic Chinese.

Last week, Mr Malcolm Rifkind, Britain's foreign secretary, was in Hanoi trying to persuade Hanoi to accept the non-nationals. He said the UK would not accept any boat people left in Hong Kong at the handover and it was up to Vietnam to take them as they had originally fled Vietnam.

He said Vietnam appeared ready to tackle the issue in "a positive and flexible way". But comments later by Vietnamese foreign minister Nguyen Manh Cam indicated his country's law prevented a shift in their position. "It is very difficult for us. It is against our law. This problem is complex but we have to respect the laws of Vietnam," he told the Financial Times.

Court ruling on Punjab a blow to Bhutto

A Pakistani court yesterday reinstated the ousted chief minister and government of Punjab in a setback for Prime Minister Benazir Bhutto's beleaguered government, writes Farhan Bokhari in Lahore.

The government of Mr Manzoor Wattoo, sacked by Ms Bhutto last year, was restored in an appeal against the dismissal orders. Mr Wattoo was given 10 days to seek a confidence vote from the 248-seat provincial legislature. Many politicians expect Ms Bhutto's power base to be considerably weakened if Mr Wattoo passes that test.

Her ruling Pakistan People's Party (PPP) responded by formally seeking a no-confidence vote against Mr Wattoo. A vote count at the Punjab assembly, the provincial legislature, could be held this week. The latest situation in the Punjab is expected to intensify pressures on the prime minister.

Mr Farooq Leghari, the president, who was once her closest supporter, has turned increasingly against her in the wake of charges of rampant corruption in the government.

In addition, the killing of her estranged brother, Murtaza, by the police in Karachi on September 20 has been both a personal tragedy and a political setback. The killing has been followed by protests against Ms Bhutto and her husband, Mr Asif Ali Zardari, in parts of rural Sindh, once considered to be her vital home base.

■ A bomb exploded on a passenger train in Pakistan yesterday, killing five passengers and injuring nine, AFP reports. The train was travelling from Karachi to nearby Rawalpindi. The blast came after nine previous blasts in Punjab in which around 80 people have died since April.

ASIA-PACIFIC NEWS DIGEST

Burma parties resume talks

High-level contact between Burma's opposition National League for Democracy (NLD) and the military junta has resumed for the first time in months. Diplomats said the contact is likely to delay imposition of economic sanctions against the military regime – under consideration by the US and European Union – until it can be assessed whether the contact might create conditions for substantive political negotiations.

In the past week, Burmese democracy leader Ms Aung San Suu Kyi has met a senior military intelligence officer, Col Than Thun, who is used to communicate messages from the military junta to Ms Suu Kyi. During last week's five-day detention of NLD vice-chairman Mr Kyi Maung, discussions were held about the NLD's position on a variety of issues.

"Both sides may be trying to improve the situation (and) their understanding of each other," said Col Kyaw Thein, a senior defence ministry official. He also said the government wanted Ms Suu Kyi to drop her call for economic sanctions before deciding "whether to take the next step or not".

Ms Suu Kyi said that it was too early to tell whether relations with the junta were improving. For the sixth weekend, police closed off the road in front of her house, preventing supporters from attending her regular weekend speeches. Burmese police detained several people yesterday after scuffles between police and NLD supporters. *Ted Bardacke, Rangoon*

Foreign reserves decline

Burma's foreign reserves have fallen to SDR201m ($290m), according to the International Monetary Fund, the lowest level since the military regime began opening up the economy in 1992 and less than half the amount recorded in mid-1995.

The fall in reserves is the result of a massive defence-led public sector trade deficit, analysts say, and may signal that the country will continue to accumulate arrears to international creditors. The government has found it difficult to obtain a new long-term fuel supply contract after it defaulted on payments to Mitsui of Japan.

While private sector external trade is largely in balance, the government recently stopped issuing import permits and letters of credit to the private sector, hoping to stem the outflow of hard currency. *Ted Bardacke, Rangoon*

Cambodian forces to merge

Breakaway Khmer Rouge commanders yesterday said they had agreed to merge their force of up to 4,000 fighters with Cambodian government forces on Wednesday. The decision came as the Khmer Rouge suffered thousands of defectors over the weekend, including several thousand fighters from fronts located close to the bases of the breakaway rebels.

The fighters, from front 250 in the northwest and 909 in the southwest, included Sam Bit, said to be second in line to dissident Khmer Rouge leader Ieng Sary. Sok Peap, commander of the northwest base of Phnom Malai, said Ieng Sary had decided to integrate his estimated 4,000 fighters with the Royal Cambodian Armed Forces.

In a statement read on local radio, soldiers from front 250, which includes four divisions and one regiment, said their 3,400 fighters and 25,000 family members were ready to defect to the government. *Reuter, Phnom Penh*

Israeli settlements illegal, says Rifkind

By David Gardner in Hebron

Mr Malcolm Rifkind, the British foreign secretary, yesterday told Israel's hard-line government that "all Jewish settlements on occupied territory are illegal" and that the option of a Palestinian state in the West Bank and Gaza had to be kept open if Israel wanted peace with the Palestinians.

Mr Rifkind was speaking in Hebron on an unscheduled visit to underline that hope of reviving the peace process requires rapid agreement between Israel and the Palestinians on the disputed and explosive West Bank town.

Earlier, in Jerusalem, the foreign secretary discussed the stalled peace process with Mr Benjamin Netanyahu, Israeli prime minister, Mr David Levy, foreign minister, and Mr Ezer Weizman, Israeli president. Last night he was due to meet Mr Yassir Arafat, the Palestinian leader, in Gaza.

Israeli last year agreed to withdraw from most of Hebron – a powderkeg where 400 heavily guarded Jewish settlers live surrounded by 130,000 Palestinians – as part of the second Oslo agreement on Palestinian self-rule. Mr Netanyahu, elected in May at the head of a coalition of rightwing nationalists, religious fundamentalists and settlers, has made withdrawal conditional on a renegotiation of the agreement's security provisions.

After the fighting in September between Israeli troops and Palestinian security forces across the West Bank, the US has tried for the past month to broker a Hebron deal without success.

Mr Rifkind said Mr Netanyahu reassured him that Israel was determined to reach an accord. The foreign secretary said Hebron would decide whether the peace process has a future.

"Without Hebron it's rhetoric, with Hebron it begins to look for real," he said. But a Hebron deal, he stressed, was "only the beginning of what could be the renaissance of the peace process."

It had to lead on to implementation of the rest of the Olso 2 agreement – including the release of Palestinian prisoners and the easing of the eight-month Israeli blockade of the self-rule areas – and to a resumption of "final status" talks on a Palestinian state, occupied Arab east Jerusalem, and the settlements.

Drawing a measured contrast to the recent tour of the Middle East by President Jacques Chirac of France whom the Israeli authorities felt was overtly pro-Arab, Mr Rifkind said: "We describe ourselves as even-handed, but we do not mean by that that we are even-handed on issues of principle."

British foreign secretary Malcolm Rifkind gestures in talks with Israeli prime minister Benjamin Netanyahu yesterday Reuter

Iraq denies US jet attacked air defence installation

By Roula Khalaf in Baghdad

Iraq yesterday denied that US jets patrolling the southern no-fly zone had fired a missile against Iraqi air defence installations. The government also reaffirmed its commitment not to fire at US and allied jets enforcing the northern and southern no-fly zones.

The US on Saturday said Iraqi radar had aimed at the US Air Force F16 jets, which fired a missile in response. A report by the Washington Times said the US Central Command was investigating the incident.

"US allegations are baseless," said the Iraqi news agency quoting a foreign ministry official. "This erroneous statement is part of the propaganda campaign for the US presidential elections."

Iraq does not recognise the no-fly zones, imposed following the 1991 Gulf war with the aim of protecting the Kurds in the north and Shias in the south from Iraqi attacks.

In September, the US extended the southern no-fly zone from the 32nd parallel to the 33rd parallel, after Iraqi forces assisted a Kurdish faction in taking control of the northern main city of Arbil. The US also fired cruise missiles against Iraqi air defence systems in the south in retaliation and launched a massive military build- up in the Gulf to deter Iraq from attacking US and allied jets patrolling the zone.

Although air defence systems are believed to have been repaired within two weeks of the US attacks, Iraq defused the tension by announcing in September it would not attack US and allied aircraft. The Foreign Ministry said yesterday that it stuck to that decision.

Iraq dismissed the US intervention in September as an electoral ploy ahead of US presidential elections which are being closely watched in Baghdad.

Aid agencies ponder the lessons of eastern Zaire

Michela Wrong analyses the events described by aid workers as 'a disaster waiting to happen'

As the world contemplates a second humanitarian operation in east Zaire, analysts are urging the international community to heed the lessons of what many consider one of the aid industry's most shameful episodes.

The first operation, launched when nearly 2m Hutus fleeing the Rwanda Patriotic Front (RPF) poured across the border in 1994, folded like a house of cards this weekend when 120 relief workers drove out of Goma. Prompted by fighting between Zairian soldiers and rebel groups, the evacuation left not a single expatriate relief worker in east Zaire.

"They are on their own now," said Mr Panos Mountzis, spokesman for the United Nations High Commissioner for Refugees (UNHCR).

But critics of the UNHCR-led operation, many of them independent aid groups, regard the last fortnight's debacle as chillingly predictable, given a series of big errors by the relief establishment.

"We have been preparing for what is happening now for two years," says Ms Allison Campbell, Care International spokeswoman. "This has been a disaster waiting to happen."

The rebels storming across Kivu, pushing refugees before them, have been helped by troops from Rwanda, whose government is furious for the way in which extremists responsible for the slaughter of 500,000 Tutsis have used the camps as a base for cross-border attacks.

"What the aid establishment now has to explain is how it allowed those camps to become bases for guerrilla activity aimed at destabilising a neighbour. And why the world has spent a $1m a day feeding genocidal killers," says a Kigali-based diplomat.

In 1994, the sheer size of the influx meant aid workers were too busy saving lives to consider long-term consequences. The cholera outbreak that followed sent heart-rending images across the world, cancelling out memories of the genocide.

The camps became permanent installations, small cities in which Rwandan mayors, militiamen and army officers, the men who masterminded the genocide, kept an iron grip on a docile community. Enjoying living standards envied by ordinary Zairians, camp dwellers ignored Kigali's appeal for them to return. Several aid agencies withdrew because of moral misgivings. But sheer ignorance often blinded many of the aid workers who stayed to the true state of affairs.

Brought in on short stints and swiftly rotated, many employed Rwandan community leaders to help distribute supplies and saw the situation through their eyes.

"People came in knowing nothing, and identified strongly with their 'clients'. They really believed the refugees were in intense danger if they crossed the border. It's called aid worker syndrome," said one relief official.

Compounding misunderstandings was the bureaucratic inertia associated with any UN operation and the international community's growing indifference to Africa. The donor community was content to hand responsibility for what was essentially a political problem to the aid establishment.

"With the end of the cold war, aid has become a substitute for foreign policy, which is both expensive and very dangerous," says Ms Campbell. "Aid agencies have become the new front line of engagement, because no one else is interested." Under international law, camps should have been located at least 100 km from the border. The UNHCR repeatedly pledged to do this, but funds were never found. Intimidated by the militiamen, the UNHCR never dared isolate the extremists.

Even the notorious "military camps", where former soldiers and militiamen trained for future assaults on Rwanda, received aid.

When an exasperated Zaire started forcing refugees on to trucks last year, there were signs that the extremists' hold on the camps was weakening. But the UNHCR cried foul, pressured the Zairians to abandon the venture and reassured the refugees of their right to stay.

It was less critical when Zaire earlier this year cordoned off the camps and started arresting ringleaders. But the attempt petered away and by the time the UNHCR met in Geneva last month to decide how to close the camps, it was too late. Rwanda it seems, had lost patience. Kigali clearly hopes the latest crisis will either trigger a long-delayed mass return, or push this troublesome community far into Zaire, away from its vulnerable frontier.

The international community now wants to save more than 1m panicky Hutus trapped in east Zaire from starvation and disease.

But a new intervention is not expressly aimed at unblocking the refugee logjam, and simply risks re-establishing an unacceptable *status quo* in a new location.

"In all likelihood the relief agencies will simply rush in again, the UNHCR will once again follow its mandate and protect the refugees and nothing will change," said an official from the International Organisation for Migration.

A French cabinet minister yesterday urged European partners to be prepared to intervene to prevent a human disaster in Zaire. "We [France] are already pre-positioning supplies, food, water, shelters and clothing," Mr Xavier Emmanuelli, secretary of state for emergency humanitarian action, said, agencies report.

"But France cannot act alone, he told TF-1 television. "Everyone in other European capitals must now start preparing to act as soon as the opportunity presents itself." Officials said the French government was waiting to see whether African heads of state, due to discuss the Zaire fighting at a meeting in Nairobi tomorrow, call for action by the European Union.

Mr Emmanuelli also confirmed Paris was considering a European plan to open "humanitarian corridors" in Zaire to help masses of refugees threatened by ethnic fighting. Aid agencies have been helping about 1m Rwandan Hutu refugees trapped by fighting between the Zairean army and ethnic Tutsi rebels backed by the Tutsi-led Rwandan army.

France sent troops to halt civil strife in Rwanda in 1994.

US may block WTO draft

By Frances Williams in Geneva

The US has threatened to block agreement on the draft declaration by trade ministers at their World Trade Organisation meeting in December because the current text does not contain a reference to workers' rights.

Mr Renato Ruggiero, WTO director general, told WTO ambassadors on Saturday that there was no consensus among member countries to include wording on labour standards in the declaration.

Developing countries have bitterly opposed moves by Washington, the European Union and Norway to discuss the links between trade and worker rights at the ministerial meeting in Singapore, fearing it could pave the way for trade measures to curb their exports.

But Mr Booth Gardner, US ambassador to the WTO, told trade diplomats that Washington might not be able to agree other aspects of the declaration if labour standards were excluded.

The stand-off seems certain to delay agreement on the draft text beyond the November 7 deadline that WTO members have set themselves and heightens the risk of a North-South political row in Singapore.

However, in a concession to the US, the draft text of the declaration includes a commitment to negotiate an accord on transparency in government procurement which Washington says will help curb corruption. It also calls for work to begin on investment and competition policy, both issues pushed strongly by the EU.

Several developing countries remain opposed to any new subjects on future WTO agendas. On Saturday, eight developing countries led by Indonesia, including India, Malaysia and Egypt, voiced detailed objections to the investment proposal, which they say is premature.

NEWS: UK

Initiative will tackle engineering skills shortage in semiconductor industry

Applied Materials to build $19.5m centre

By Chris Tighe
in Newcastle upon Tyne

US-based Applied Materials, the world's largest supplier of wafer processing equipment, has launched an initiative to tackle the skills shortage in the UK semiconductor industry.

The company is to establish a £12m ($19.5m) European Technical Centre in North Shields in north-east England to train up to 300 graduates a year as equipment engineers.

The project is a response to intense concern among UK-based microchip manufacturers over skills shortages and consequent fierce recruitment competition.

Unless training provision can be quickly improved, recently-announced semiconductor investments in south Wales and Scotland by LG and Hyundai, both of Korea, will greatly intensify the skill shortage problem, driving up salary overheads. Industry leaders have warned this could hamper the UK's otherwise strong chances of attracting more microchip plants.

"If nothing is done now, we will just end up in a bidding war," says Mr Rodney Griffiths, president of Applied Materials Europe. "That could really cripple the industry and it would deter other people from coming to the UK."

The Applied Materials chose to cite its training centre in the north-east of England ahead of Scotland, Germany and the Republic of Ireland. "It's an absolutely fundamental building block," said Mr John Bridge, chief executive of north-east England's inward investment body, the Northern Development Company.

It was also welcomed by the National Microelectronics Institute, recently created with government encouragement by the nine UK-based semiconductor manufacturers to provide a focus for the sector's training, supply and research infrastructure.

Factors in Applied Materials' choice of North Tyneside included Enterprise Zone status and proximity to Siemens new £1.1bn semiconductor plant. Applied is supplying more than £40m of equipment for the first phase of the Siemens development.

Applied's training centre will create around 50 jobs, including posts for 40 service engineers, many supporting Siemens. The plan is to have the centre built and ready to open for May.

It will offer classroom and hands-on equipment training courses lasting six months, at around £30,000 a head. The company expects it to cement links with present and potential customers and foster the UK semiconductor sector's growth, to its own benefit.

Applied's project is the first phase of a European Microelectronics Institute-Centre for Advanced Industries being built at Royal Quays, a redevelopment of port land once used for coal shipments.

Growth of repo market sets scene for reform

By Graham Bowley,
Economics Staff

Britain's central bank, the Bank of England, today publishes new figures showing further rapid growth of the new market in UK gilt repos.

The growth sets the scene for reform of the UK's money markets, making it more likely that gilt repos – bond sale and repurchase agreements – could be used as a tool to control daily money market conditions and interest rates in the UK.

Such a move would bring the UK into line with other European countries and make it easier to adopt a repo-based system of monetary policy if it were to join the European single currency in 1999, the scheduled start date, or later.

It would also strengthen the UK's chances of remaining an important centre for money market operations in the European single currency area, even if the UK stays out of monetary union.

The figures come at the same time as a potentially damaging split has emerged between international investment banks and central bankers over how European monetary policy would be conducted in European monetary union.

The row revolves around what securities would be eligible to be used in the repo-based system of monetary policy expected to be used in the single currency area after 1999. The disagreement means some banks could steal a competitive march over others in Emu.

Central bank officials are working out how monetary policy would be conducted after 1999. The most likely plan is that interest rate changes would be made through a European-wide repo market. Under this system, the European central bank would manage liquidity in the continent's money markets by buying or selling bonds at a set interest rate.

The repo interest rate would be allowed to move within a corridor, along the lines the Bundesbank carries out monetary policy in Germany.

The European central bank would operate in the repo market on a regular basis, buying and selling bonds with a large group of banks and investment institutions to set money market interest rates. But there would probably be an additional core group of banks which the central bank could call on in times of stress to carry out large emergency repos.

Some countries at present allow only government-backed bonds to be bought and sold in the repo transaction. But countries such as Germany allow other high quality private sector bonds to be used.

European central banking officials indicated at a meeting in Brussels last month that high-quality non-government bonds may be eligible under the new system.

But one US investment bank has complained that this would give an advantage to banks and institutions which are used to the German system and which already own large amounts of non-government bonds.

The Bank of England said the gilt repo market – which was introduced in January this year – has grown to about £60bn by the end of August, with daily turnover in gilt repos of at least £15bn.

Big UK companies are underestimating the implications of European monetary union on computer systems, says a survey published today, Paul Taylor writes.

The industry estimates it could cost companies up to £30m ($49m) to implement necessary changes, but only 7 per cent of finance directors thought monetary union would have a great impact on their IT systems.

Conservative majority looks set to disappear

By George Parker,
Political Correspondent

The death yesterday of an MP in the governing Conservative party reduced the government's majority in the House of Commons to only one in a House of more than 600 members. It now seems almost certain that the government's majority in the Commons will disappear early next year.

The opposition Labour party is well placed to win the by-election in prosperous Wirral South seat in north-west England, held until his death by Barry Porter. Labour also seems certain to hold Barnsley East, in northern England, a seat left vacant by the recent death of the Labour MP Mr Terry Patchett.

A Labour victory in both seats would leave the Conservatives in a minority position in the Commons, and reliant on the support of other parties – particularly the Ulster Unionists – to remain in power. The Ulster Unionists are the largest pro-British party in Northern Ireland.

Last week Mr Tony Blair, Labour leader, told colleagues Mr Major would be forced to go to the polls before his favoured date of May 1, because of his shrinking majority.

State of parties in the House of Commons

Party	MPs
Conservative	323
Labour	271
Liberal Democrat	26
Ulster Unionist party	9
Scottish National party	4
Welsh national party	4
Social Democratic and Labour (N Ireland)	4
Other NI unionists	4
Government majority	1
Seats vacant	2

The Speaker and her 3 deputies do not normally vote.

Mr Porter, a caustic but well-liked MP, held his seat with a majority of 8,183 over Labour at the last general election. Tory officials said February was the most likely date for a by-election.

Some Tory Central Office officials believe it would be better to hold the by-election before Christmas, rather than giving Labour the opportunity for a significant propaganda victory nearer to the general election. Writs for by-elections have to be moved within three months of the death of an MP.

Mr John Major, the prime minister, intends to see through the measures included in the recent Queen's Speech to both Houses of Parliament before calling a general election, and will be well aware that Mr James Callaghan, Britain's last Labour prime minister, ran a minority government for three years between 1976 and 1979.

Yesterday Conservative MPs made it clear they intended to exploit the government's small majority by pressing ministers to adopt a tougher line on issues on the new "moral" agenda, including classroom discipline.

Mr James Pawsey, chairman of the party's backbench education committee, predicted the pressure building up behind the campaign to reintroduce the cane to Britain's schools could force Mr Major to rethink his position.

Another Tory MP, Mr David Shaw, said he would table an amendment to the government's education bill calling for an enforceable dress code for teachers. Ministers said neither caning nor a dress code would be included in the bill.

The row over caning has been symptomatic of the Tories' fumbling start to the new political year.

Yesterday Mr David Mellor, a former Conservative cabinet minister, said on GMTV that Labour had succeeded in putting the government on the defensive on issues like knives, guns and education.

UK NEWS DIGEST

Concern over accounting plan

The City of London is against accountancy firms forming offshore limited liability partnerships, according to a poll commissioned by KPMG, the only big UK accountancy firm opposed to the idea.

The Mori poll, which will be disclosed at a Financial Times conference in London today, indicates that two-thirds of top company directors would not view such a move as acceptable. The poll follows the recent decision by Jersey's parliament, the states, to approve controversial legislation allowing UK accountancy firms to register on the island as limited liability partnerships.

Firms such as Price Waterhouse and Ernst & Young are looking at the move which would protect the personal assets of partners from legal actions against fellow partners. But KPMG has already taken a different route for limiting liability by incorporating its audit arm.

Jersey, the largest of the Channel Islands between England and France, makes its own finance laws and is outside the jurisdiction of the UK parliament even though Queen Elizabeth is its head of state. *David Wighton*

■ SCIENCE

Warning over nanotechnology

Nanotechnology – engineering on an ultra-small scale – is being "left behind" as a priority area for UK government support, the Parliamentary Office of Science and Technology (Post) warns today.

"Meanwhile, other nations [such as the US and Japan] have identified nanotechnology as a critical technology underpinning advances across many market sectors," the report says. Post is an office of the two houses of Parliament, charged with providing independent advice to MPs and lords on issues involving science and technology. Nanotechnology deals with science and engineering on scales of less than one-10,000th of a millimetre.

Clive Cookson

■ NORTHERN IRELAND

Court hears of bombing at army base

A man appeared in court on Saturday charged over the bombing of the British Army's Northern Ireland headquarters by the Irish Republican Army.

Mr Michael Gerard Rogan, 36, a kitchen designer from north Belfast, is accused that between June 3 and October 8 he unlawfully and maliciously conspired together with a person or persons unknown to cause an explosion likely to endanger life or cause serious injury.

A soldier died after the attack at Thiepval Barracks on October 7. More than 30 other people, many of them civilians, were injured. *PA News*

■ AGRICULTURE

Ministers confident on cattle cull

British ministers are confident that the backlog of cattle on farms awaiting slaughter under the so-called "30-months" cull will be cleared by Christmas, clearing the way for a possible new cull aimed at easing the ban on British beef exports.

Mr Douglas Hogg, agriculture minister, was relieved last week to discover that the size of the backlog may not be as great as previously thought. Previous Ministry of Agriculture estimates put the size of the backlog as high as 400,000, but senior officials say the registration scheme has shown that the true figure is "significantly lower".

George Parker

Russia's statistics fail to add up

DATELINE

Moscow: Impressions gained from strolling around the big cities of the former Soviet Union clash with the official data, writes **John Thornhill**

There may be lies, damned lies, and statistics, as Benjamin Disraeli once observed. But there is an argument that Russian economic data should constitute a fourth category all by themselves.

In Soviet times, Moscow's central planners were so baffled by their own numbers that they reputedly used the CIA's publicly-available "green books" on the Russian economy to analyse what was happening.

Looking at some Russian statistics today, this comes as little surprise. As late as 1993, two western economists, Brigitte Granville and Judith Shapiro, were surprised to discover that no-one had died that February – officially, at least.

Soviet central planners created an Alice in Wonderland world in which there were massive incentives to over-report production figures to win medals in Moscow and back Nikita Khrushchev's claim that communism would bury capitalism.

The trouble now is that Russian managers do exactly the opposite, under-reporting their output to hoodwink the taxman – or the mafia.

Official statistics show that the Russian economy has halved since 1991, compared with a 31 per cent decline in the US economy at the time of the Great Depression.

In 1994, Russia's gross domestic product was officially estimated at $277.2bn – smaller than the economy of the Netherlands and even the US's annual defence budget during President Ronald Reagan's most gung-ho years.

Such figures, however, sit oddly with the impressions gained from strolling around the streets of Russia's big cities, where signs of a booming consumer society assail the eye at every turn. Russia's tin-shed kiosks have been transformed into luxurious emporia selling everything from giant cuddly toys to fine French champagnes. Waves of marauding Mercedes cars roll along Moscow's eight-lane highways.

The data collected by western consumer products companies, employing leggy blondes to lure passers-by into disclosing their intimate financial secrets, paints a picture of a vibrant, and fast-growing, middle class with a high level of discretionary spending. The theory of trickle-down economics may have been vindicated at last.

To be fair, Russia's State Statistics Committee has been making valiant efforts to improve the quality of its data and capture more of this grey market activity.

One of its most useful publications has been a 469-page compendium comparing Russia's vital statistics with those of other countries from around the globe. It provides a fascinating snapshot of how much in Russia has changed in the past four years – and how much has not.

True to Soviet tradition, the statisticians highlight data on such worthy subjects as potato production, an activity in which one would still expect Russia to dominate the world. With a grand total of 33.8m tonnes a year, it is to say the least surprising that Russia evidently comes second to rice-eating China in terms of potato output.

Mr Sergei Aleksashenko, deputy governor of the Central Bank who has been one of leading proponents of Russia's market reforms, says he looks at informal indicators such as booming housebuilding activity and steady electricity consumption to feel the economy's pulse.

"The state statistics committee has not changed its methodology and it is often very difficult to tell what is going on in the real economy," he says. "My assumption is that household consumption is increasing which cannot be reconciled with declining production."

The rise of Russia's middle class is well documented, if in an oblique way. Since 1985, the average size of newly-built apartments has increased by almost one-fifth while the number of telephones has grown by more than 44 per cent.

The number of Russians who travelled abroad in 1995 sky-rocketed to 8.4m – the most popular tourist destinations, outside the former Soviet Union, being Turkey, Finland, and Greece. Some 538,000 Russian "tourists" flocked to Turkey last year – as is evident from the many Cyrillic signs in Istanbul shop windows and the locals' new habit of referring to prostitutes as Natashas.

But the darker side of Russia's transformation is also captured by the statisticians. The number of unemployed had climbed to 5.5m by 1994 and has been steadily climbing ever since. Officially, of course, there was no unemployment during Soviet times.

The stresses caused by job insecurity, combined with a diet of fatty sausage, cheap vodka and cigarettes, and a crumbling public health system appear to have taken a terrible toll on the Russian male.

One of the most horrifying statistics is the short life expectancy for Russian men, who can now expect on average to live no more than 58 years. That is lower than in any of the other 59 countries surveyed, including several third world countries.

Even Russia's cattle appear to have been feeling the strain of economic transition with the annual yield of milk per cow down by 26 per cent since 1990.

The overall impression to be gained from such statistics is of a country undergoing bewildering, convulsive, and at times contradictory, change.

Maybe Russia's much-maligned statisticians have got it right after all.

The Monday Profile: Dhanin Chearavanont, CP Group

Good on faces, not numbers

Not just another overseas Chinese patriarch: Dhanin Chearavanont

He is the 12th richest man in Asia and chairman of the single largest foreign investor in China, where his company has Business Registration Certificate No 0001. Yet Dhanin Chearavanont, head of Thailand's CP Group, is not a traditional numbers man.

Annual revenue from the more than 250 companies in the CP mosaic? It might be about $7bn (£4.4bn) but Dhanin says he doesn't know. Number of employees drawing a CP pay-cheque? Guesstimates vary from 80,000 to 100,000. The share price of any of the 15 CP Group companies, ranging from agribusiness to telecommunications to motorcycle assembly, listed on stock markets in eight countries? The least of his concerns.

"We don't have a policy of pushing up our share price," says Thanakorn Seriburi, who has no numeric position in the CP hierarchy but is important enough to oversee all the company's investments in China. "If people want to buy our shares, they should buy for the long-term."

How long is long-term? In Dhanin's view, indefinitely long. Profits at CP Group are not the ultimate goal but a tool for something more ambitious: building an empire in the biggest country in the world. All earnings from Chinese operations are reinvested in China. CP has so much currency revolving around the country – almost $2.5bn has been invested so far – that it has opened its own commercial bank, Shanghai-headquartered TM International Bank, the first foreign-owned bank with its head office in China.

"China is a very old country," says Dhanin, 57. "It will be here for a long time. So will we."

Actually, Dhanin has always been around China. Born in Bangkok to southern Chinese immigrants, at the age of 10 he was sent back to Shantou for secondary school and then on to commercial school in Hong Kong. By the time he returned to Bangkok seven years later, his father and uncle were running the city's most successful seed store and his older brother had opened Thailand's first chicken feed mill.

At 25 he was already running the company, his talent for surrounding himself with capable people having helped convince older relatives to get out of the way. (A devoted follower of feng shui and a specialist in ngo heng, or "face reading", Dhanin once hired a senior assistant in an elevator, saying he could tell she would be a success because her face gave off intelligent energy).

A 1970 joint-venture in chicken breeding with Arbor Acres of the US sowed the seeds of the CP empire. CP now does everything from research on new variations of chicken feed and manufacturing refrigerated lorries to transporting processed chicken meat. When aquaculture took south-east Asia by storm in the early 1980s, similar vertical integration made CP the world's largest producer of processed shrimp.

Beyond agribusiness, the empire has grown by duplicating that first joint-venture formula of combining western know-how with Dhanin's knack for putting the right people in the right place. CP runs Makro and 7-Eleven stores in Thailand, has petrochemical joint-ventures with Solvay of Belgium and Wiik & Hoegland of Finland, is China's largest producer of motorcycles in joint ventures with state-owned companies, works with Honda in autoparts, has an interest in China's Apstar satellite business and installed 2.6m telephone lines in Bangkok together with Nynex of the US.

"People like working with us because we always treat our joint-venture partners as real partners, sharing the benefits," says Dhanin, whose hobbies of pigeon raising – colleagues say he can even tell a bird's temperament by looking at its face – and classical Chinese opera are considered eccentric by most Thais but play well in China.

Dhanin makes a point of cultivating relationships with authorities. He is seen as often at the side of the Thai prime minister of the day as he is with Chinese premier Li Peng. He advised the Chinese government during the Hong Kong negotiations with the British and is Thailand's largest donor to royal-sponsored development projects. CP funds many of Thailand's political parties and in the US has a joint-venture consulting company, Interlink, with Neil Bush, son of former US president (and former US Ambassador to China) George Bush.

Many have stereotyped Dhanin as just another overseas Chinese patriarch, given the diverse and unfocused nature of the conglomerate, his coziness with governments and the top-down strategic thinking. Even some of his employees do.

"The company is unique in the region in its spending on R&D, particularly in biotechnology. On the human resource side, new employees have six months of paid training before starting. Every manager, no matter what their far-flung geographic location, returns to Thailand periodically for skills development workshops.

So while Dhanin may set overall strategic direction, he feels confident enough with his people not to meddle. And apart from Sumet, family members are conspicuous by their absence from CP management. As Dhanin says of his empire: "CP is a family, not a family-run business."

Ted Bardacke

FT GUIDE TO

Watching the US elections

How does America elect a president?
It's the electoral college, stupid, not the popular vote. There are 538 members, allocated according to state size, which means 270 needed to win. Keep that number in mind. Only once (1876) has a candidate got fewer public votes than his opponent but carried the electoral college. Bill Clinton's target, to claim a mandate, is 50 per cent of the popular vote, up from 43 per cent in 1992.

You mean there are electoral colleges for Congress too?
No, it's the popular vote, dummy. All 435 House seats are up for two-year terms, along with a third of the six-year term Senate (34 this year). Magic numbers in this election for the Democrats to regain control from Republicans are net gains of 19 in the House and three in the Senate – assuming vice-president Al Gore is re-elected and able to cast tie-breaking votes. Eleven states elect a governor.

When do we get the first results?
Unless you are in Asia, before you wake up on election day. The honour belongs to Dixville Notch, New Hampshire, a hamlet of 30-odd souls next to the Canadian border, which counts its vote just after midnight local time. Not a good predictor, though, since it has been reliably Republican.

How about the first state results?
State polls broadly close in hourly waves, according to the country's four time zones. Seven east coast states close as early as 7pm local time, most at 8pm.

Won't TV exit polls give the game away early?
Yes, no, and maybe. The networks have agreed not to call the outcome in any state until its polls have closed. But their exit surveys will infuse their early evening national newscasts. If the conclusions are that the economy and education were dominant issues, that bodes well for Clinton; if character and ethical questions surrounding the president loom exceptionally large, then Bob Dole and, possibly, Ross Perot may do better than expected. A give-away is how the women's vote splits. If the distaff edge to Clinton is 20 points in the exit polls, it is over. And if early results and exit polls point heavily in one direction, the temptation to call the whole election may be irresistible.

Which of the early reporting states matter?
New Hampshire could be a disaster for the Republicans, where they could lose a senator, both congressmen and the governor, mostly for local reasons. Elsewhere, on down to Maryland, looks like a Clinton sweep, but margins of much under 20 points in New York and Massachusetts might be a worrying sign for him.

What about John Kerry against Bill Weld in Massachusetts?
Classy race, good candidates, but separate from national or regional trends. Could be a long night's count for the Democratic senator and the Republican governor. Ditto New Jersey for Bill Bradley's Democratic senate seat, though Bob Toricelli (D) and Dick Zimmer (R) have been as dirty as they come.

There are southern states on the east coast. What about them?
Mixed bag. If Clinton takes Virginia he'll be the first Democrat to do so since 1964. If Dole loses Florida, Republican for 20 years, then it's doubly over. Otherwise not bad territory for Republicans locally. The Carolinas should send Jesse Helms (aged 75) and Strom Thurmond (93) back to the Senate and Republicans should pick up Senate seats in Alabama, and conceivably Georgia. Speaker Newt Gingrich should defeat a cookie manufacturer in the Atlanta suburbs.

Next time zone please?
It really could be definitively all over if Clinton caps an eastern sweep with one in the industrial midwest (Illinois, Ohio, Michigan especially) plus a handful of others, like his native Arkansas and Louisiana. Al Gore's Tennessee might be lost, though, and Texas leans to Dole. Lots of tight Senate and House races, enough to swing the balance in Congress.

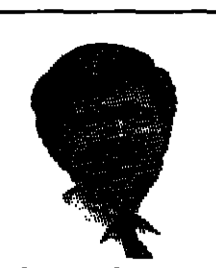
Can we go to bed now?
Not if you like Bob Dole, because the next band of states is more his turf, especially up in the northern prairies and bits of the Rockies. Unfortunately most of them have more cattle than people and therefore few votes in the electoral college. One to watch is Arizona, Republican since 1948 but now improbably leaning to Clinton. Also, some very rightwing Republicans (Wyoming, Idaho, even Colorado) may prove too tough even for cowboy country.

Isn't this the time for a concession?
Absolutely not. That's what Jimmy Carter did in 1980 before the polls in California and the rest of the west closed, probably costing the Democrats some congressional seats (people went home after work rather than voting.) If the outcome is still in doubt, California (54 electoral college votes) should clinch it. Control of Congress could also rest on the west, where Democrats hope for 10 plus gains in the House. Washington could elect the country's first Asian American governor, Gary Locke.

Where will Bill 'n' Bob be?
The president plans to be back home in Arkansas. Dole's campaign plane may still be trying to land somewhere, maybe Kansas, Washington or Florida.

Jurek Martin

Peter Norman · Economics Notebook



Germany crawls toward Emu

Doubts that the Maastricht criteria will be met seem to be growing

It is the time honoured pattern for progress in the European Union to be tempered by setbacks. Viewed from Bonn, this certainly seems to be the case with economic and monetary union.

In recent weeks, the Bundesbank has signalled a more flexible approach to the way that the future European central bank should implement monetary policy in the euro area. The German finance ministry is increasingly unhappy at the slow progress being made towards its goal of a stability pact to control fiscal deficits among future Emu member states.

The thaw on monetary policy has come from an unexpected quarter: Otmar Issing, the Bundesbank's chief economist and one of the "hardliners" in its decision-making central council. After long propagating the idea that the ECB's interest rate decisions should be based on Bundesbank experience and linked to a money supply target, Issing now admits there are virtues in the UK and Scandinavian approaches of setting monetary policy in line with an inflation target.

The scale of his conversion should not be overstated. Issing has not accepted that policy should be based on an inflation target like that published by the Bank of England. But in a speech in Luxembourg last month he indicated that the differences that have hindered agreement on monetary policy in the euro area may be subsiding. He said: "A middle way, worthy of consideration, could be to augment monetary targeting with an inflation forecast."

That idea was developed further last week in the autumn report of Germany's six leading economic institutes. They said there may be teething troubles in the early days of Emu and that the European central bank should look at other indicators, including such forward looking guides as interest rates and futures, when formulating monetary policy.

In practical terms, this would be good news because interest rates in the euro area would be less likely to be subject to the vagaries of an unproven European monetary aggregate.

The shift partly reflects the problems of M3, the broad money indicator which the German central bank uses as a monetary target. Issing has admitted that in the case of the Bundesbank "the annual target has been missed every other year".

There is a growing awareness in Frankfurt that monetary targeting has been made difficult through innovation in financial markets and new developments in payments systems such as "electronic money".

Differences about monetary policy remain. The Bundesbank and Bank of England are still at odds over the access of banks from outside the future euro area to the intraday liquidity and overnight credits to be provided through the "Target" real-time gross settlement payments system. The two sides also differ on whether the ECB should have the power to require minimum reserve deposits from banks in stage three of Emu.

Otmar Issing, left, and Jürgen Stark

These issues are less significant for the future of Emu than the uncertainty surrounding the ability of Germany and France to meet the Maastricht convergence criteria which aim to limit government deficits to 3 per cent of gross domestic product and overall debt to 60 per cent of GDP. Another problem is the growing grumpiness in Germany about slow progress towards the stability pact, a key part of the Bonn government's campaign to gain acceptance for replacement of the D-Mark by the euro.

Doubts about Germany's ability to qualify for Emu surfaced in last week's forecasts from the six institutes that Germany would fail to meet both the deficit and debt criteria for Emu next year. Their report also expressed disenchantment with the way Bonn's proposals for a stability pact to limit fiscal deficits in Emu have been diluted by the European Commission.

While the Bonn finance ministry has rejected the institutes' debt and deficit predictions, it shares their concern about the stability pact. In an interview with the newspaper Handelsblatt last week, Jürgen Stark, the finance ministry state secretary and chief international monetary negotiator, criticised the commission for failing to provide precise rules on excessive deficits in its proposals. He demanded further negotiations to overturn its idea of a ceiling of 0.5 per cent of GDP on the fines that would be imposed on delinquent Emu members with excessive deficits.

Stark warned that Bonn would cease to co-operate in preparing a stability pact for the euro area if its sanctions were watered down. Instead, Germany would wait until the first wave of Emu nations had been chosen in early 1998 and seek a separate stability treaty with them.

The implications of such a threat are unclear. But progress has been slow since the stability pact was first proposed a year ago by Theo Waigel, Bonn's finance minister. Deferring negotiation until early 1998 could force a delay in the planned start of Emu on January 1, 1999.

The threat and the possible consequences are a reminder of the pressures on Bonn as it pushes ahead with Emu. Chancellor Helmut Kohl is committed to Emu and his vision of embedding Germany in a more integrated EU. He can only do this if he makes the sacrifice of the D-Mark palatable to Germany's voters, its parliament and the constitutional court in Karlsruhe. Both the Bundestag and the court have set strict limits on Bonn's ability to interpret the Maastricht criteria flexibly.

For the time being, the Bonn government is sticking to its mantra that Germany, with France, will meet the Maastricht criteria and be able to launch Emu as planned 26 months from now. But Stark's warning of non co-operation on the stability pact may be a sign that escape routes are being explored in case the challenge proves too great.

FINANCIAL TIMES
COMPANIES & MARKETS

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Ciba wins tax-free demerger deal

Chemicals group secures Swiss concession

By Jenny Luesby

Ciba, the Swiss drugs and chemicals company, has secured a tax-free deal for the spin-off of its chemicals business with annual sales of $5.2bn.

The deal, the first of its kind in Switzerland, contrasts with the arrangements for the spin-off last year of Clariant, the $1.7bn chemicals business of Sandoz.

Early next year, Ciba and Sandoz will merge their pharmaceutical businesses to form the world's second largest drugs company, Novartis. Sandoz is the dominant partner in this arrangement.

In secret talks with the tax authorities, Ciba has managed to secure a tax-free deal on its chemicals business that eluded its prospective partner.

Sandoz has refused to reveal how much tax was incurred as a result of the Clariant spin-off.

However, the launch of the Ciba speciality chemicals business will not generate corporate tax for the remainder of the Ciba group. Nor will shareholders incur private income tax or stamp duty on their chemical shares.

The deal rests on the definition of the spin-off as a demerger rather than an initial public offering (IPO).

Mr Rolf Meyer, who has been appointed chairman of the speciality chemicals business, said that under the deal Ciba would be required to distribute shares in the new company to existing Ciba shareholders.

In practice, the demerger will be via a rights issue, with shareholders paying only the nominal value of the shares. "This is not a distribution or a dividend, but simply a share split," the company said.

This tax-free arrangement was "a first at city, canton, state and federal level," said Mr Meyer.

"We had been told it would be very difficult to get a tax-free spin-off, but we found a receptive ear," he said.

"The alternative would have been to sell the business in pieces, which would not have benefited the country's future tax base.

"This way, the chemicals business will go forward as a large Swiss entity."

The tax deal will also confer a degree of protection. A change in ownership or control of the company during the next five years would trigger the tax payments.

"The definition of what constitutes a change of control has been set quite low, at around 30 per cent," said Mr Meyer. This also applies to disposals. "Selling a very significant proportion of the business would also trigger the tax," he said.

Triumph to raise DM100m for more purchases

By Daniel Bögler

Germany's Triumph-Adler is planning to raise DM100m ($66m) through a one-for-four capital increase this month to help finance up to DM500m of acquisitions as part of its strategy of buying and consolidating Mittelstand companies – the small private businesses at the heart of Germany's economic success.

Still best known for making typewriters, Triumph-Adler has turned itself into a diversified holding company after a change of strategy in 1994 when Mr Raimund König, the chairman, and his colleagues bought Triumph-Adler from Olivetti and injected their private industrial management company into it.

Triumph-Adler made losses of more than DM700m in the late 1980s and early 1990s as demand for typewriters suffered from the rise of personal computers.

Mr König and his team, all former management consultants at Bain & Co, brought the company back to profit and made several acquisitions, including Idéal Loisirs, France's largest toymaker.

Triumph-Adler consists of four divisions under a central holding company. It is Germany's leading photocopier dealer, the second biggest toy company in Europe and has specialised businesses in healthcare and construction. Although the group is still Germany's largest typewriter manufacturer, this makes up less than 5 per cent of turnover.

Having turned the group around and seen the shares more than double in the past two years, the new management is keen to expand. Mr König said he had identified DM500m of purchases for existing divisions and was not averse to adding a new business area. The group focuses on stable but fragmented markets where it can gain a significant share, rather than particular products or services.

He said: "Our strategy for success is based on linking the impressive competitiveness of the Mittelstand with the professional management and financial strength of the holding."

The fundraising will increase the marketability of Triumph-Adler's shares. At present, 30 per cent are held by management, 25 per cent by Westdeutsche Landesbank and most of the rest by private investors which have backed Mr König before.

Triumph-Adler has appointed NatWest Markets to help it raise the funds and introduce it to international investors. If this issue is successful, a much larger capital increase will follow next year.

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Deutsche Telekom calls its investment bankers to heel

Nicholas Denton on a row over pricing biggest public offering

So the world's biggest public offering – the DM15bn ($9.90bn) partial privatisation of Deutsche Telekom – has had a row to match. It appears that a meeting on Monday September 30 between the German telecoms company and its investment banks to discuss the pricing of the issue became a clash of the titans.

Mr Ron Sommer, the Telekom chief executive lured from Sony Europe to shake up the state-owned company, had summoned the investment bankers after their analysts doubted the company could achieve the price it was seeking.

Mr Joachim Kröske, the finance director who chaired the privatisation steering committee, had said two years before that Telekom would command DM30 a share. But Deutsche Bank and Goldman Sachs, two of the global co-ordinators of the issue, appeared to be shading down the price by arguing for a range of DM20-DM30.

The German instinct was to resolve the matter at the highest level. Many of the bankers were due to attend the annual meeting of the World Bank in Washington DC that day, but Telekom made it clear the deal was at stake and their attendance was required at noon at its headquarters in Bonn.

From Deutsche Bank, which spoke for the three banks acting as global co-ordinators, came Mr Ronaldo Schmitz, who had driven its expansion into investment banking. Dresdner Bank, leader of the domestic part of the issue, sent Mr Hansgeorg Hofmann, deputy chairman of its Kleinwort Benson investment banking arm.

But the most formidable of the bankers was Mr Eric Dobkin, who, as partner in charge of equity capital markets at the US's Goldman Sachs, sometimes claimed he had been involved in more privatisations than anyone.

When Mr Kröske of Telekom insisted on a range of DM25-DM30, Mr Schmitz and Mr Hoffman tacked with the wind. However, during the nine-hour meeting, Mr Dobkin stood his ground and insisted the consortium test the market before it narrowed the range.

Mr Kröske was not accustomed to being contradicted. Telekom also felt, some advisers say, that the role of the bankers was to represent the company's views to the market, not the market's to the company.

By October 19, the banks agreed the DM25-DM30 range, and demand appears healthy at those levels. Telekom and Goldman Sachs say their relationship is good. But Mr Kröske, who, according to advisers, felt patronised by Goldman, still hints at the clash of styles: "Everybody has to take account of different cultures and different levels of knowledge about IPOs [initial public offerings]," he says. "All people at the top of their profession have a certain kind of arrogance."

Clashes between clients and investment banks during large privatisations are par for the course. Deutsche Bank angered its fellow banks when, in making its research available early, it appeared to snatch an unfair advantage in selling Telekom stock to investors.

Other privatisations have been far more fractious: PT Telkom of Indonesia and the four international investment banks which led its unwieldy consortium squabbled incessantly. However, Deutsche Telekom has been unique in several respects.

First, investors' views vary more than usual. German retail investors, more familiar with bonds than equity, have tended to focus on the high forecast dividend yield of the shares, which points to a price well above DM25.

International fund managers such as the US's Fidelity tend to judge Telekom primarily by the ratio of its enterprise value to forecast earnings before interest, tax, depreciation and amortisation (EBITDA). That method shows that, even at DM20, it would trade at a premium.

Second, Telekom has been a particularly assertive client. The privatisation proceeds will help pay down Telekom's debts rather than going to the government, so the company has generally taken the lead. Unusually, the three global co-ordinators have no permanent representation on Mr Kröske's steering committee.

Third, on such a high-profile deal, investment banks can win or lose their reputations. The success of the issue will define the credentials of the international investment banking operation Deutsche Bank is building. For Goldman, which most of its rivals seek to emulate, it is more a matter of confirming its position as the leading house for international equity issues and showing that it has "passed German engineering standards".

The reaction of investors during Telekom's international roadshow, which this week moves to the US, indicates the issue will be oversubscribed at DM25-DM30 a share. For Goldman, that is a slightly mixed blessing. Such success is bound to polish the reputation of the investment banks. But Mr Kröske, who all along pushed for a price of DM30, will be tempted to say: "I told you so."

Two Swedish exchanges in talks on link

By Hugh Carnegy in Stockholm

The Stockholm Stock Exchange and OM, the Swedish derivatives exchange operator, announced yesterday they were discussing ways of co-operating – including a possible merger.

"We are not excluding anything – not even a merger," said Mr Per Larsson, chief executive of OM, the biggest shareholder in the Stockholm Stock Exchange with a 21 per cent stake.

The two organisations, which are both listed companies, have been pioneers of electronic trading and remote exchange membership in a campaign to remain the chief channels for trading in Swedish equity and derivatives, in spite of the removal of international trading barriers.

But with deregulation continuing and the prospect of a common European currency from 1999, the two are anxious to keep a competitive edge. "We are both quite competitive today, but we have to become more competitive and to see the borderless markets as an opportunity, not a trap," said Mr Larsson.

The two markets, which have many members in common but different operating systems, said they began talks several months ago. They do not directly compete in the instruments they trade and so offer complementary services.

They are discussing technical co-operation in areas such as integrating their order book systems, as well as what they called "different marketplace matters". "Our vision is to see if there are ways for us to combine and co-ordinate to give our common members a full product range and to save money for us and our members," Mr Larsson said.

OM, which was founded in 1985 and operates the OMLX exchange in London, has made no secret of its ambition to become what Mr Larsson calls "a universal marketplace" for Nordic securities, not just Swedish instruments.

It has forged links with the Oslo bourse, the Finnish options exchange and is operating the Norwegian/Swedish electricity exchange. OM plans to open a market for trading wood pulp futures and options in London early next year.

The bourse, meanwhile, has expanded rapidly since deregulation in the late 1980s. It has benefited from a surge of foreign investment in Swedish equities, managing to retain the bulk of trading in Sweden's big international stocks despite the listing of many of those companies in New York or London.

The two sides said they intended to conclude their talks by the end of the year.

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Microsoft to outline plan to cut companies' PC bills

By Paul Taylor

Mr Bill Gates, chairman of Microsoft, will today outline moves by the US software group to reduce the costs of corporate desktop computing and encourage companies to adopt Internet technology for use on their internal networks.

Mr Gates, in Britain to talk to schoolchildren, politicians and the business community, acknowledged that the cost of ownership of personal computers was too high. Gartner Group, the US-based market research firm, has suggested that PCs can cost as much as $7,000 a year to run.

Yesterday, the Microsoft chairman dismissed suggestions from some rivals that the answer was to build low-cost, stripped-down PCs. Companies, including Sun Microsystems, the US computer group, and Oracle, the database vendor, have proposed reducing costs by building so-called "thin clients", or network computers, that would rely on networks and servers for much of their computing power.

Mr Gates said he believed that companies would be unwilling to sacrifice the personal control and flexibility of PCs, which were important productivity tools. Bringing down the initial cost of a computing device was only part of the solution.

Microsoft would focus instead on reducing the management and support costs related to corporate PCs by automating software updates and providing new tools for network managers – its "zero administration initiative".

Last week, Microsoft and Intel, the US chipmaker, also unveiled plans for a NetPC, described by Mr Gates as fulfilling "the needs of users who do not require the flexibility and expandability of the traditional PC".

Mr Gates accused Sun and other companies advocating network PCs of "shifting massive costs up to the server". People wanted the responsiveness and flexibility on the desktop. "We are only moving the administration up to the server – not the applications," he said.

Today, Mr Gates meets Mr John Major, the British prime minister, and Mr Tony Blair, leader of the opposition. He said he expected to talk about a range of technology issues.

NFC considers MBO option for Lynx

By Motoko Rich

NFC, the transport and logistics group, is considering an auction of Lynx, its express parcels business, to a financial buyer who would back a management buy-out.

NFC is understood to be talking to a number of banks and venture capitalists who might be interested in buying the business, which is considered non-core to the group.

NFC declined to comment on whether the business – which only returned to profitability after several years of losses last year – was for sale.

Earlier this year, Mr Gerry Murphy, who was appointed chief executive in June 1995, said Lynx was not for sale. "We do not have to rush headlong into a forced disposal programme. Our balance sheet is strong," he said.

However, the group is believed to have identified the business, which can deliver parcels overnight within the UK and continental Europe, as a target for disposal as it does not fulfil a key element in its logistics strategy.

Lynx has had a chequered history, suffering years of losses in the mid-1980s and early 1990s.

Losses reached £12.4m in the year to October 1 1993, and the business returned to profit in the year to September 30 1995.

It is believed the business generates sales of about £70m, but it is highly unlikely that a buyer would pay that much for the business, given its poor record. It is thought £35m would be a more reasonable level.

Mr Philip Rose is managing director of Lynx.

Parcel delivery is a very fragmented market in the UK, where international carriers such as UPS, DHL and Federal Express compete with several smaller players, such as Nightfreight and United Carriers.

Since Mr Murphy took over the helm of the company last year NFC has laid out its strategy to focus its UK logistics businesses on larger and fewer contracts, reorganise its loss-making and disparate European businesses into national networks and increase revenues in its North American operations.

Cadcentre to speed growth through listing

By Andrew Baxter

Cadcentre Group, a former UK government research establishment forged in the "white heat" of the 1960s technological revolution, is to go public in the next few weeks, raising about £7m.

The Cambridge-based company, which employs nearly 200, is one of the world's leading suppliers of three-dimensional computer-aided design software for engineering projects such as offshore oil rigs, power stations and chemical plants.

According to an announcement today, it will seek a full listing on the London Stock Exchange "within the next month or so".

Market capitalisation at the issue price, which has not yet been announced, is expected to exceed £30m. Albert E Sharp has been appointed as sponsor and stockbroker.

Cadcentre was founded in 1967 with a charter to improve the performance of British industry by applying advanced computer techniques to engineering design. It was privatised in 1983, and in 1994 was the subject of a £7m-plus management buy-out backed by 3i, the investment group, and Cambridge University.

Flotation will enable Cadcentre to build on its growth record and accelerate the pace of international expansion, said Mr Crispin Gray, chief executive.

"Being fully listed will enhance our credibility in a market place where most of our customers are multinational blue chip organisations," he said.

The flotation will also enable 3i, which owns 38 per cent, and the university (13 per cent split between the university itself, Trinity and St John's colleges) to realise a part of their holdings.

The board have 43 per cent, and staff and others the balance.

Turnover rose about 20 per cent to £14.2m in the year to March 31, and pre-tax profits were £1.7m – up sharply from £556,000 in 1994/5 when non-recurring costs of the buy-out and other factors depressed the result.

Gene therapy group to raise £5m

By Justin Marozzi

Oxford BioMedica, the gene-therapy company, will publish its pathfinder prospectus today for its flotation on Aim to raise a minimum of £5m.

The proceeds will be used to provide working capital, fund ongoing R&D and recruit up to 30 staff within the first year. The group has already raised £750,000 through a pre-placement of stock in September. Assuming that 20-25 per cent of the group is being sold, the flotation is valued at about £50m. Analysts estimate that between £10m-£15m will be raised. BioMedica is marketing the offer prior to the final valuation and dealings are expected to begin at the end of the month.

The company, founded by husband-and-wife team of Alan and Sue Kingsman, plans to form corporate alliances to fund further clinical developments, market BioMedica products and hopes to take its first candidate product into phase I/II clinical trials within three years.

Alan Kingsman: objective is to become a significant force in the R&D of gene therapy

"We anticipate that these partnerships will produce revenue streams from upfront payments, milestone payments and royalties on sales," said Dr Brian Richards, chairman.

The gene therapy treatments – in which faulty genes are replaced with good genes by using retro viruses – for the HIV virus and for ovarian cancer are at similar levels of development. The group hopes to sell its first products by 2002. "Our objective is to become a significant force in the R&D of gene therapy products in the 21st century," said Mr Kingsman, chief executive.

The global market for the seven product series treating each of BioMedica's targeted diseases is worth more than $5.5bn (£3.4bn).

A collaborative agreement with the Cancer Research Campaign – one of its shareholders – was also announced, giving give it access to anti-cancer gene therapies and technologies arising from CRC's research.

Dr Neill Mackenzie and Mr Andrew Wood are to join the board, as as business development director and finance director respectively.

Stakis tender may be 'tip of the iceberg'

William Lewis examines the innovative underwriting of the hotel group's share issue

It is not every week that institutional investors line up to talk publicly about a rights issue, but that is what happened last week following the announcement of a £222m ($370m) share issue by Stakis.

Investors temporarily abandoned their normal reticence to praise Schroders, the merchant bank, for organising a tender for part of the underwriting fees for the hotel group's rights issue.

About 40 investors participated in the innovative tender, which saved Stakis £400,000 in fees, and Schroders described it as an "historic" development in the way companies raise new equity capital in the UK. The Prudential and M&G, among several investor groups, welcomed the initiative and the National Association of Pension Funds speculated that the Stakis tender "could be the tip of the iceberg".

The reason for investors giving such public support – for a process which resulted in their foregoing part of the sub-underwriting fees they would normally expect to have been paid – was clear. The Schroders tender could not have come at a better time for investment institutions trying to avoid referral to the Monopolies and Mergers Commission of the traditional system of fixed underwriting fees, on the grounds that it is too costly for companies raising capital.

The Office of Fair Trading last year warned that it would push for an MMC inquiry unless investors and banks started to show flexibility in the way that a fixed underwriting fee of at least 2 per cent is levied on all companies raising equity capital. Usually 1.25 per cent goes to institutions acting as sub-underwriters, the lead underwriter retains 0.5 per cent and the remaining 0.25 per cent is paid to the broker.

The OFT, which is thought likely to make a decision on an MMC reference by the end of the year, is concerned that the UK's underwriting system, which has been operating for more than 30 years, is uncompetitive. Estimates of profitability vary, but a study commissioned by the OFT concluded that sub-underwriters had been earning £60m a year in "excess" returns.

The OFT is also concerned that the underwriting system gives rise to potential conflicts of interest for merchant banks, which typically act both as companies' financial advisers and lead underwriters. But to the relief of investors, it has stopped short of examining the issue of pre-emption rights, through which companies wanting to raise cash by issuing more than five per cent of their shares in any year must offer them first to existing shareholders.

FUND MANAGEMENT

Nevertheless, with UK institutions and banks fearing their profits from underwriting could be hit by an MMC inquiry, they have been making strenuous efforts to show the OFT that the current system can become more flexible and more competitive.

On September 16 Mr Graham Allen, chairman of the NAPF's investment committee, alerted members to "the likelihood that sub-underwriting offers may be made to you in a way that is somewhat different from established existing practice". One possibility was that part of the sub-underwriting of an issue would be offered by tender, "so some of an institution's available allocation may be at a commission rate other than 1.25 per cent".

That is exactly what happened last week. The Stakis issue saw Schroders offer 120 investors the chance to underbid the 1.25 per cent sub-underwriting fee – actually 1.5 per cent in the Stakis case because of the time the issue will take – for a third of the issue. About a third of the institutions bid to take a lower price for 28 per cent of the issue, knocking 8.5 per cent off the total £5m fee charged to Stakis.

Yet behind the public praise for Schroders for having arranged the first tender, investment institutions admit to concerns that time is running out for them to persuade the OFT an MMC inquiry is unnecessary.

The NAPF says several more tenders and other innovative schemes will soon emerge, but argues that it is difficult for its members to show their willingness to accept more competitive sub-underwriting practices when so few companies are currently seeking to raise new equity capital. With institutional investors having to wait for their next chance to show the OFT that change is taking place, further evidence has emerged to support the case for reform.

In an unpublished and updated version of an earlier study carried out for the OFT, Professor Paul Marsh of the London Business School suggests that in 1986-94, sub-underwriters "enjoyed excess returns totalling some £490m".

He studied 805 rights issues which raised £46.2bn and concluded that "for the sub-underwriting community, it is clear that sub-underwriting, measured over any reasonable long time period, should be regarded as a very profitable activity". His study for the OFT covered 1986-1993 and examined fewer rights issues.

Last week Professor Marsh said that his updated report, plus evidence from rights issues over the last two years, showed that there had been very few issues in which the 2 per cent fixed-commission structure had been altered: "With a few exceptions, such as Stakis, nothing seems to have changed. If it [Stakis] is a beginning, that is a good thing, but if that is largely it, then it is not enough."

NEWS DIGEST

Japanese order for Westland

GKN, the engineering and defence equipment group, is shortly expected to announce a breakthrough for its Westland helicopter subsidiary with the first civil order for its EH101 aircraft.

The company, which last year won a £500m order from the Royal Air Force for 22 EH101 helicopters, is understood to have to have signed preliminary contracts with a large Japanese customer. Although the size of the order has not been disclosed, it is thought to be worth about $15m per aircraft.

GKN and Agusta of Italy, the EH101's joint development partners, have been seeking non-military orders since winning civil certification two years ago. The two companies have been pinning their export hopes on a search and rescue variant of the helicopter, while also seeking orders for a 30-seat "Heliliner" passenger version.

The success in Japan follows an intensive marketing campaign by Kawasaki Heavy Industries, the country's leading helicopter manufacturer, and Okura, the Japanese trading house. Under the prospective contract, Kawasaki is expected to establish maintenance and support facilities for the new helicopter customer.

Senior officials at GKN believe the breakthrough in Japan could lead to a joint venture with Kawasaki, enabling the Japanese company to manufacture the civil EH101 and possibly other models under licence. *Tim Burt*

Kwik Save in own-label move

Kwik Save, the UK discount supermarkets group, is planning to enter the lucrative own-label market as part of a shake-up expected to involve widespread closures and costs of close to £100m.

The food discounter is due to announce the findings of a five-month strategic review by consultants Arthur Andersen when it reports its annual results on Thursday. The group is expected to announce a sharp drop in profits from £125.5m to about £85m. The move could seriously unsettle the food retail sector, where a price war between the supermarket majors has already substantially eroded margins.

Peggy Hollinger

Molins packaging expansion

Molins, the cigarette and packaging machinery manufacturer, is paying about £23m for a cartoning and case packing machinery group.

Consideration for HJ Langen, with a workforce of 160 in Canada, and Langenpac, which employs a further 40 in the Netherlands, comprises £2.2m from the issue of 221,844 shares with the balance in cash from existing resources.

The two businesses made profits before interest and tax of C$6.5m (£3m) in the year to October 31 1995 on sales of C$58.5m. Management accounts indicate a similar performance this year. Net assets are about £5.1m.

The deal also includes a 60 per cent interest in Langen-Kyoto, a Canadian joint venture which distributes Japanese compact disc packaging machinery.

Wolstenholme in US deal

Wolstenholme Rink, the UK printing materials manufacturer, has agreed to sell the resin division of Wolstenholme International to Lawter International, a US supplier of resins to the printing ink industry, for £5.5m.

Lawter will also purchase stocks of raw material, work in progress and finished goods, valued at about £1.7m.

In September, the group reported a 29 per cent drop in interim pre-tax profits to £2.63m (£3.71m) on turnover of £43.4m, after being hit by increased raw materials costs and overseas expansion. *Justin Marozzi*

PBIB moves headquarters

Prudential-Bache International Bank, an affiliate of Prudential-Bache Securities, the financial services group known in the US as Prudential Securities, has moved its banking headquarters from Luxembourg to London.

PBIB said it had moved some of its banking operations from Luxembourg to Devonshire Square in London, but that it would still maintain a branch operation in Luxembourg. PBIB offers private banking and fund management services to wealthy individuals.

Prudential-Bache is owned by Prudential Insurance, the US financial services institution. *William Lewis*

General Cable chief

Mr Ian Gray, the former chief executive of retailer Brown & Jackson, has been appointed chief operating officer of General Cable, the French-controlled cable company. His resignation from Brown & Jackson, which was rescued by South African group Pepkor in 1994, was announced two days ago.

His appointment to General Cable comes at a time when the loss-making industry is moving from focusing on construction to marketing. He is credited with helping to implement Brown & Jackson's restructuring programme, which has seen losses fall substantially.

INTERNATIONAL NEWS DIGEST

New Holland float brings Fiat $1bn

Shares in New Holland, the world's third-biggest farm and construction equipment company, were floated at $21.50 last week, raising $1bn for its parent Fiat, the Italian industrial group. The New York flotation, accompanied by a simultaneous international offering to investors outside the US and Italy, was three-times oversubscribed. North American institutions took up 70 per cent of the offer and other international institutional investors the remainder.

As a consequence, offer leaders Goldman Sachs, the US investment house and Milanese merchant bank Mediobanca said they intended to take up an over-allotment option which would lift to $1.15bn Fiat's total cash injection from the offering. The 46.5m shares taken up represented 31.2 per cent of New Holland's total equity. The over-allotment option, of a further 6,975,000 shares, will leave Fiat with slightly more than 64 per cent of New Holland.

The offer price was in the middle of the $20 to $23 range hinted at by Fiat in September. At the close of dealing on Friday the shares stood at $21¼. The proceeds of the offer are to be used entirely by Fiat to lift its 1996 results. Earlier this year, the company said extraordinary income from asset sales and other transactions would be used to ensure this year's net earnings remained in line with the L2,147bn ($1.41bn) achieved in 1995, despite falling margins in its core cars business. *John Griffiths*

Tranz Rail profits rise 60%

Higher revenues from freight, passenger trains and its inter-island shipping services helped Tranz Rail Holdings, the former New Zealand Rail, lift net earnings 60 per cent, from NZ$5.8m to NZ$9.4m (US$6.7m), in the three months to September 30. Mr Ed Burkhardt, chairman, said the result was a good one in the current low growth environment. Tranz Rail is controlled by Wisconsin Central Transportation and listed on Nasdaq and the New York Stock Exchange. Total revenue rose 3 per cent to NZ$133.9m, assisted by a 9.4 per cent rise in the company's ferry services between the North and South Island, and a 5.1 per cent increase in freight. Total operating costs rose 3.3 per cent to NZ$115.9m. *Terry Hall, Wellington*

Komerční Banka falls sharply

Komerční Banka, the Czech Republic's largest commercial bank, reported a big fall in profits before bad debt provisions in the nine months to September 30 after a sharp rise in administrative expenses. The bank's profit before provisions for loan losses – calculated according to international accounting standards – fell from Kc11.3bn for the same period last year to Kc8.8bn ($327m).

Komerční's net profit for the nine months fell from Kc5.4bn to Kc4.9bn. The fall was caused mainly by a jump of 49 per cent in administrative expenses to Kc6.9bn. The bank's cost to income ratio deteriorated to 48 per cent at September 30, compared with 32 per cent a year earlier. Total assets rose to Kc445bn. However, the market shrugged off the results on Friday, sending the shares up Kc126 to close at Kc2,126. *Vincent Boland, Prague*

Bancomer earnings surge

Bancomer, Mexico's second largest bank, reported net profits of 574m pesos ($72m) for the third quarter of 1995, three times greater than the result for the same period of 1995. "The bottom line was good but in terms of operations, the figures were disappointing," said Mr Nuno Fernandes, an analyst at Caspian Research in New York.

Net interest margin for the quarter stood at 7.05 per cent, 1.22 percentage points below the corresponding figure for 1995. Analysts said that, like its chief rivals Banamex and Serfin, Bancomer had been affected by interest rate changes and decisions to invest funds in securities rather than new loans. Grupo Financiero Bancomer, Bancomer's parent group, announced total net income up 122 per cent year-on-year to 633m pesos for the quarter. *Daniel Dombey, Mexico City*

Record month for US IPOs

The appetite for shares in the US encouraged a record number of flotations in October, with 106 companies issuing shares for the first time – breaking the previous record of 100 initial public offerings (IPOs) set three years ago, according to Securities Data. The IPOs represented $6.3bn in gross domestic proceeds and bring the total for the year so far to $41bn from more than 700 companies.

The figures embrace domestic new issues including closed-end funds and real estate investment trusts. About a third of the companies were in high-technology sectors. To a certain extent, they are using high technology as well – the US Securities and Exchange Commission has signalled tacit acceptance for initial public offerings over the Internet. The SEC has given de facto approval for a $5m offering by Netter Digital Entertainment, a Hollywood production company, by issuing a 'no action' letter. The first IPO on the Internet, from Spring Street Brewery, raised $1.6m last year.

Alex Brown & Sons and Lehman Brothers were the most active underwriters, followed by Goldman Sachs and Smith Barney. *Peter John*

Trizec Hahn starts trading

Shares of Trizec Hahn, a merger of two big holding companies controlled by Canadian financier Mr Peter Munk, begin trading (Symbol TZH) today on the New York Stock Exchange and in Toronto and Montreal. Trizec Hahn is North America's second biggest quoted property company, with more than US$6bn assets. It retains 15.7 per cent of Barrick, the big gold producer but is selling its 46.2 per cent interest in Clark Refining, a US downstream oil company. *Robert Gibbens, Montreal*

Orogen makes solid debut

Shares in Orogen Minerals, which holds the Papua New Guinea government's stakes in a number of big local resource projects, made a solid debut on the Australian Stock Exchange on Friday. They closed at A$2.12, a 12 cents premium to the A$2 price at which shares were sold to institutional investors in last week's offer.

Friday's closing price capitalises the company – in which the PNG government retains a 51 per cent interest – at about A$681m (US$537m). Orogen said demand for the shares had been "beyond expectations".

It is the second successful flotation of a large PNG-based resource stock recently. Last year, shares in Lihir Gold, which is developing a major gold mine on the island of Lihir, were also launched on the stockmarket. Orogen takes in interests in the Lihir, Misima and Porgera gold mines, as well as stakes in the Kutubu and Gobe oil projects. *Nikki Tait, Sydney*

Indus plans DM1.5bn of purchases by 2006

By Peter Marsh in Hanover

Indus, a German holding company that specialises in buying medium sized, family run engineering businesses, is preparing to spend up to DM1.5bn ($989m) on further acquisitions in the next decade.

Mr Winfried Kill, Indus founder and chairman, said in an interview that his company could "easily manage" over this period to operate a further 40 to 50 companies on top of the 18 medium sized businesses which Indus has acquired in the past decade.

Mr Kill has hit on the formula of targeting companies in the Mittelstand – Germany's large community of small to medium sized, privately owned engineering businesses – whose owners wish to sell because their sons or daughters are not interested in taking on the businesses when they retire.

Indus, which went public earlier this year by floating some of its shares among private investors, last year had sales of DM366m and made a pre-tax profit of DM49m. This year it expects sales of about DM410m.

Mr Kill, a 57-year-old former steel industry executive with a degree in economics, and his family control 53 per cent of the business.

Typically Indus, which operates from a small headquarters on the outskirts of Cologne with a staff of eight, spends DM20m on each acquisition, picking out companies with annual sales in the DM10m-DM60m range. In recent years, Indus has acquired such companies at the rate of two to three a year and Mr Kill said this was likely to continue.

In spite of the general mood in Germany of gloom about the country's manufacturing future, Mr Kill said he was highly optimistic about German industry's ability to compete. "The infrastructure is excellent, and the quality and productivity is good. I don't know where it could be better," he said.

The 18 companies in Mr Kill's current portfolio are mainly in archetypal "metal bashing" engineering industries – ranging from specialist equipment to make car tyres to textile machinery and air conditioning products.

The company spurns anything to do with services, consumer goods or high-technology products, which Mr Kill says are too risky.

All the companies Indus acquires have to have a good profits record and to demonstrate entrepreneurial management styles, Mr Kill said, and all the companies that have been acquired so far have had production bases in western Germany. Mr Kill said he would continue to avoid the former East Germany. "They don't have the right mentality – there are too many problems," he said.

Lex, Page 18

Japan answers call of telecoms deregulation

Last week's opening up of the domestic market is the first step in an overdue catch-up process

Telecommunications in Japan, like many of the country's public utilities, has long been tied up in a web of regulations that has kept prices high and restricted growth in new services.

In spite of measures taken more than 10 years ago that put Japan in the vanguard of telecoms liberalisation, the government's slow response to recent technological and regulatory changes in the telecoms market meant that Japan fell behind in the march toward an advanced telecoms industry.

But last week, the Japanese Ministry of Posts and Telecommunications took a step that heralds radical change in the country's Y10,000bn ($88bn) telecoms market.

It has removed restrictions on connecting privately leased lines to the public network in Japan, which will allow any company to compete with the four incumbent operators in domestic public telecoms services.

The latest measure will soon be followed by steps expected to trigger a fundamental restructuring of the telecoms industry that could involve foreign, as well as Japanese, carriers.

The deregulation of privately leased lines is expected to stimulate competition and bring down prices in the long-distance market, where the ability to provide public fixed-line telecoms services has been restricted to the four companies with a special licence.

Since the cost of a privately leased line is fixed – regardless of the volume of traffic carried – companies that keep their costs lower than those of the incumbent carriers will be able to offer telecoms services at rates significantly lower than those currently charged.

Telnes, a private company, has already announced plans to lease lines from a long-distance operator and offer telephone services between Tokyo and Osaka at a 25 per cent discount to the Y130 currently charged for three minutes.

The company aims to extend its services to other cities in Japan. Mr Kiyohisa Ota, industry analyst at Merrill Lynch in Tokyo, believes it could take a 25 per cent share of the long-distance market within five years.

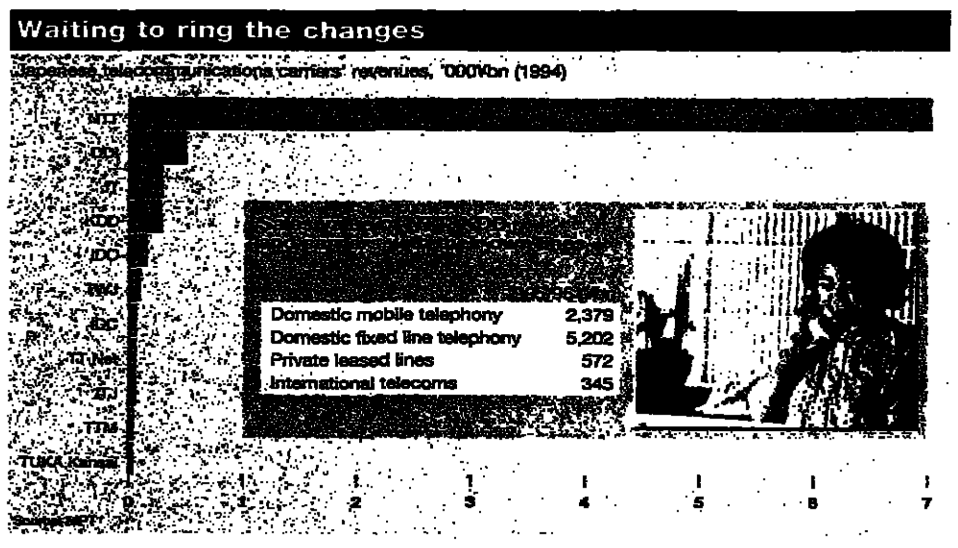
Further competition in the long-distance market is expected from the cable TV industry, after Titus Communications, a Japanese-US joint venture, recently became the first cable TV operator to receive a telecoms licence.

In response to such competition, NTT, which has nearly 70 per cent of the domestic long-distance market, announced cuts in its busy Tokyo-Osaka rate, from Y130 per three minutes today to Y100 in four years.

But deregulation in the domestic market is only "the domino that will trigger the fall of all the others", says Mr Makio Inui, industry analyst at Salomon Brothers, the securities company, in Tokyo.

Early next year, the telecoms ministry plans legislation that would allow KDD, the dominant international carrier – but prohibited from internal services – to enter the domestic market.

Waiting to ring the changes



The ministry's aim in lifting the ban on KDD goes beyond allowing the company into a new market. It hopes also to encourage cross-entry by other domestic and international carriers.

"We want to see businesses going into each other's territory," says Mr Yasuhiko Taniwaki, deputy director of the telecoms policy division at the ministry. When KDD is allowed into the internal market, "long-distance operators will not be able to survive by offering just long-distance services". He believes that "they will have to go into international business".

As there are already four long-distance operators, and three companies serving the international market, the consensus is that lifting the ban on KDD will prompt mergers and alliances between long-distance and international operators as they scramble to provide more comprehensive and seamless services and thereby ensure their long-term survival.

Deregulation also bodes well for foreign telecoms companies interested in the Japanese market. AT&T of the US has taken a big step towards capturing a slice of Japan's international call market.

According to the telecoms ministry, the company's Japanese subsidiary has applied for a licence to offer call-back services making the cost of an international call from Japan substantially cheaper than the rate charged by KDD and other Japanese operators.

But such moves pale beside the competition expected to emerge in the international market when the ministry next year deregulates international leased lines, allowing them to be connected to Japan's public network.

Not only Japanese companies, but foreign carriers – which have been restricted to shares of less than 20 per cent in telecoms operators which own infrastructure – could lease lines and offer international call services at significantly lower rates.

Moreover if, as it plans to do, the telecoms ministry completely deregulates foreign ownership of carriers other than NTT and KDD, "the entire Japanese telecoms market could be restructured", says Mr Inui at Salomon Brothers.

The biggest remaining question concerns the break-up of NTT, which the ministry believes is necessary to stimulate further competition in the local market and bring down the access charges which NTT – the only operator involved in both long-distance and local services, over which it has a virtual monopoly – imposes on its long-distance competitors. A decision on NTT is expected by the end of the year.

Whatever that decision is, the extent of deregulation elsewhere in the industry is likely to ensure that, a few years down the road, Japan's telecoms industry will look very different from today.

Michiyo Nakamoto

ZF investment in China to rise

By Stefan Wagstyl, Industrial Editor

ZF, the diversified German maker of transmission and steering equipment, is planning to double its investments in China in response to the rapid expansion of the Chinese motor industry. The group, which already has four Chinese joint ventures, is proposing to launch four more in the next year.

The investment in each would rise steadily to about DM100m ($66m), which would take the group's total investment in China to about DM800m.

Mr Klaus Bleyer, chief executive, said: "China is the most important region for us. The market is growing very fast."

ZF, which employs 30,000 people in 70 plants around the world, is the largest independent manufacturer of car and lorry transmissions. It is also a leading producer of steering and chassis components and marine transmissions. Turnover last year totalled DM7.2bn.

The company first invested overseas in the 1960s, in South America, and has since expanded across Europe and North America and in Japan. But it believes China will now be the biggest single focus for new investment. Two of its existing joint ventures are in Shanghai, producing steering and chassis units: a third makes transmissions for off-road vehicles in southern China, and the fourth is a Beijing-based service centre. The new projects include proposals for manufacturing bus axles, marine transmissions and lorry transmissions.

Telecoms venture plans Indian ADR

By Tony Tassell

India's first American Depositary Receipt offering is expected to be launched in the next few weeks by a joint venture between US West, the telecoms group, and BPL, a Bangalore-based electronics group.

The joint venture, BPL Cellular Holdings, will seek $200m, plus a 15 per cent greenshoe option, through the issue of ADRs which will be listed on Nasdaq. Lead manager is Morgan Stanley.

Funds raised through the offering, which will test the water for two other planned ADR offerings by Indian telecoms consortia, will be used for the development of cellular services by BPL-US West in three areas of India. BPL-US West won licences last year from the Indian government to provide cellular services in the states of Maharastra, Tamil Nadu and Kerala, at a cost of Rs40bn ($1.12bn) over 10 years.

In the past, Indian companies have opted for global depositary receipt offerings in Europe over ADRs because of lower costs and less stringent accounting regulations. However, only companies with an existing track record can obtain GDR listings.

ATHENS STOCK EXCHANGE Oct 28th - Nov 1st 1996 GREECE

ASE INDEX	938.04	P/E (after tax) 96e/95	11.4/12.6	GDP (USD bn) 96e	122.06
%Chg (2/1/96)	3.80	EPS GROWTH (%) 96e	13.4	Per Capita Income (USD)	11,738
Yearly High	1026.02	P/E 96e/EPS GROWTH (%)96e	0.85	Inflation Rate (% Y.O.Y. September 96)	8.50
Yearly Low	870.66	P/CE 96e/95	8.5/9.1	November 12 M T-Bill rate (%)	12.80
WEEKLY VOL (USD m)	316.47	P/BV 96e/95	2.4/2.9	1-Month Athibor (%)	13.07
%Chg (Prev. Wk)	111.66	Div. Yield (%) 96e/95	5.4/4.5	GRD/US$	238.80
1 Y Wk Avg. (USD m)	161.09			A.S.E. Market Capitalisation - 1/11/96 (USD bn)	24.79
				IPOs & Rights Issues (In USD m) Jan 1 '96-Nov 1 '96	557.39

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Peter Martin

Exercising the euro arguments

Will the euro be a strong currency when it comes into existence, or a weak one? The issue is not simply theoretical. Investors around the world are already entering into commitments in currencies that will, if all goes according to plan, switch automatically into the euro in 1999, only 26 months away. Will the new currency hold its external value?

There are two schools of thought. One of them takes an "institutional" view: the new European Central Bank will be overwhelmingly committed to price stability, its hands unfettered by political considerations of any sort. Therefore the new currency will definitely be hard - possibly even harder than the D-Mark. And even if, over the long run, the new bank listens to industrial constituencies arguing that too strong a currency can be damaging, in the short run it will establish its credibility by a policy of unrelenting strictness.

In those early years, says this school of thought, the monetary and inflation statistics of the euro area will be newly aggregated and confusing. The new central bank will be forced to rely on the only measure of monetary policy provided by an external, objective source: the foreign exchange markets. Keeping the currency strong will turn into a central, if informal, objective of the new institution.

On this view, the accompanying chart of the path of the European Currency Unit, the basket of EU currencies that is a relic of past attempts to move towards monetary union, casts no light on the future of the euro. The fact that the ecu has been weaker than both the dollar and the yen over most of the past five years (when charted against the Swiss franc, a neutral benchmark) is irrelevant. The ecu represents the aggregated monetary policy decisions of the existing European monetary authorities, including those in countries traditionally inclined towards devaluation such as the UK and Italy. The euro will replace them – for member countries – with a new, much more uncompromising monetary authority, at least as committed to price stability as the Swiss National Bank.

The euro will also be attractive to external holders, as a potential reserve currency that will be under-represented in their portfolios. That will cause a steady demand for euro-denominated assets, at least early on. For all these reasons, says this school, the euro will be a strong currency.

The alternative school of thought is what might be called the "political economy" view.

It commands a surprising degree of support among economists, a fact that emerged at a recent seminar organised by Mark Cutis, treasurer of the European Bank for Reconstruction and Development.

The arguments for this school fall into two parts. First, as Patrick Artus of the *Caisse des Dépôts* group points out, the economic structure of the euro area will be more than the sum of its parts. Because of the high levels of intra-European trade, individual EU economies have very high import penetrations; the risk of imported inflation from any currency depreciation is thus great. A central bank committed to price stability, such as the Bundesbank, has no option but to keep the currency strong.

By contrast, with intra-European trade netted out, the euro area will be much more like the US: a relatively "closed" economy, with external trade as much smaller percentage of economic activity. The new European Central Bank can afford to be relaxed about the external value of the currency, *focusing its attention* instead on internal economic indicators.

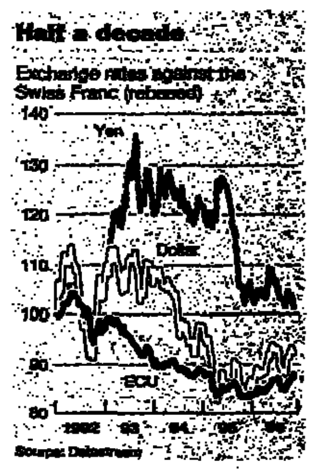
Reinforcing this point are the "political" arguments. For many participants, the purpose of Emu is to create a central bank that will pay some attention to their domestic economic circumstances, to replace a Bundesbank concerned only with German conditions. The price of obtaining such influence is the *fiscal austerity* imposed by the Maastricht convergence criteria. The voters will expect to receive the reward for that effort. Whatever its statutes, the new central bank will inevitably be pushed towards tolerance of external depreciation – a task made easier by persistent outflows of capital as financial institutions within Europe seek to diversify their portfolios away from the inherited over-dependence on the euro.

If the markets have a view, it is probably closer to the hard-currency school of thought: the euro will be slightly less strong than the D-Mark, but not by much.

None the less, the fact that the debate exists implies that the weak-currency arguments cannot entirely be neglected. If they are right, the euro may turn out to look more like the ecu – in external terms – than its advocates would like to admit.

Half a decade

Exchange rates against the Swiss Franc (rebased)



Total return in local currency to 31/10/96

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.10	0.03	0.06	0.06	0.15	0.11
Month	0.45	0.04	0.26	0.29	0.68	0.48
Year	5.81	0.56	4.09	6.13	10.77	6.84
Bonds 3-5 year						
Week	0.81	0.27	0.02	0.06	0.33	-0.28
Month	1.59	1.22	0.42	1.08	2.18	-0.13
Year	5.08	3.58	7.83	12.46	23.41	8.30
Bonds 7-10 year						
Week	1.41	1.09	0.28	0.24	0.13	-0.05
Month	2.34	2.56	0.73	1.32	2.23	0.22
Year	3.95	8.63	9.64	16.44	34.74	9.95
Equities						
Week	0.4	-1.4	-0.6	-0.1	-2.8	-0.4
Month	2.6	-4.7	0.7	1.5	-5.0	0.8
Year	23.0	10.6	23.8	24.3	2.5	17.3

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Excel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE

Weak home sales slow Japanese carmakers

■ **Leading Japanese carmakers'** results for the six months to September, out next Friday, are likely to depend on how far cost-cutting and the positive impact of a weaker yen has offset soft domestic sales.

Analysts said Toyota, Nissan and Mitsubishi Motors fell short of their domestic sales targets, due to the shift of demand to recreational vehicle models produced by Honda. Exports, except for Mitsubishi Motors, have been better-than-expected on the yen's decline.

Toyota Motor's first half to September parent pre-tax profit may be as high as Y240bn ($2.11bn), above its own forecast of Y210bn, and compared with Y68.06bn a year earlier.

Nissan Motor's first half to September parent pre-tax profit is seen at Y25bn-Y37bn, compared with its own forecast of Y25bn, and compared with Y13.43bn, while Mitsubishi Motors' first half to September parent pre-tax profit is seen at Y19bn-Y21bn, compared with its own forecast of Y22bn, and with Y21.35bn last time.

AFX News, Tokyo

■ **KLM Royal Dutch Airlines** will on Tuesday report net profit for its second quarter to September of Fl 182m-Fl 295m ($108m-$175m), down from Fl 302m a year earlier, according to analysts' forecasts.

The figure is expected to include a Fl 115m book profit from sales of preferential shares in Northwest Airlines, and Fl 16m from the upward revaluation of its holding.

Operating profit is seen falling to Fl 140m-Fl 241m from Fl 333m, with yields being squeezed by a sharp rise in fuel prices. KLM recently announced it will from November 1 begin levying a surcharge on all passenger and cargo fares to compensate for rises in fuel prices since the beginning of the year.

AFX News, Amsterdam

■ **Akzo Nobel**, the Dutch chemical group, is expected to report on Wednesday net profit for the third quarter to September of Fl 315m-Fl 343m ($186m-$203m), compared with Fl 324m or Fl 4.56 per share a year earlier.

Rabo Securities expects earnings to slip to Fl 315m or Fl 4.43 a share, largely due to a forecast Fl 15m operating loss from Akzo Nobel's fibres business compared with a year-earlier profit of Fl 28m.

"Not only is the third quarter traditionally weak for fibres, but the competition and price pressure that led to the drop in second-quarter operating profit (to Fl 15m from Fl 53m a year earlier) has got even stronger," said Rabo, adding that a continued strong performance by aramid fibres will be insufficient to offset declining results elsewhere in the division.

AFX News, Amsterdam

■ **Unilever** reports its third quarter results on Friday with good news on sales and less encouraging news on margins and profits.

Sales should be up about 8 per cent *to around £3.5bn* thanks to a 2 per cent lift from volume growth, 3 per cent from price increases and 3 per cent from acquisitions. Trading margins will have slipped a bit from 10.3 per cent a year earlier, leaving pre-tax profits barely ahead at £343m ($1.4bn).

■ **British Petroleum** winds up the third-quarter reporting season of the big oil groups on Tuesday. It too is expected to refer to high oil prices, squeezed refining margins and difficult trading conditions in chemicals.

Forecasts for replacement cost net income range from £620m ($1bn) to £634m. Pressures on margins are expected to produce profits lower than in the second-quarter, but the mid-point of the range is still up 17 per cent on last year's pre-exceptional £532m.

A forecast quarterly *dividend of 5p would be 25 per cent* up on last year's 4p.

High cash generation is expected to put the group on target to reduce gearing to about 25 per cent by the year-end.

■ **British Airways** announces second quarter results on Tuesday which should show pre-tax profits of £326m ($530m), against £295m last year, and giving a total of £475m for the first half, a ten per cent rise.

Analysts will be studying the group's statement on fuel prices – how far they have risen and what impact – and its exposure to currency movements.

■ **TeleWest**, the cable company, is expected to show a *continuing improvement in* net income and earnings before interest, tax and depreciation in its third-quarter results on Monday.

However, most interest will focus on any hints the company gives on its strategy, in the light of the audacious £5bn ($8bn) merger of Nynex CableComms, Bell Cablemedia and Videotron with Cable and Wireless's Mercury telecoms business.

TeleWest, which broke off merger talks with Nynex recently, *is widely expected* to pursue other alliances.

■ **Whitbread** is expected on Wednesday to report an 11 per cent rise in interim pre-tax profits to £173m ($282m).

Beer volumes were up nearly 7 per cent in the first four months, food sales have surged, and Marriott hotels, bought last year, are beginning to contribute.

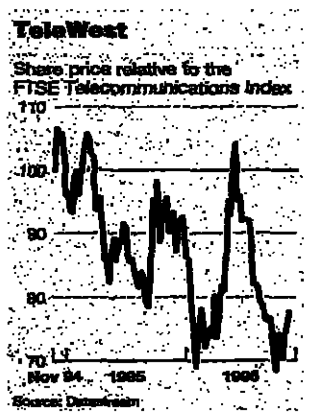
Earnings will be about 26.3p and the dividend up 8 per cent to 6.2p.

Japanese carmakers

Share price relative to the Nikkei 225 Average

TeleWest

Share price relative to the FTSE Telecommunications Index



INTERNATIONAL EQUITY ISSUES

Venezuela launches Cantv deal

Road-shows to promote an international primary share offer for Cantv, Venezuela's telecommunications company, are due to begin in Europe today, signalling the launch of the country's biggest ever initial primary offer (IPO). The deal, which will be completed towards the end of this month, is also likely to be the biggest out of Latin America this year.

The price range has been set at $3.071 to $3.50 per share (£1.92 to £2.19), compared to the $4.71 per share paid by the Venworld Telecom consortium (GTE, AT&T, Telefónica de Espana, Venezuela's Banco Mercantil and Electricidad de Caracas) in 1991, when it acquired a 40 per cent stake. But although Venworld will be disappointed with the price, it should help ensure the deal's success among both international and domestic investors.

International investors can purchase 34.2m American Depositary Receipts (ADRs), each worth seven shares, to be listed on New York.

A total of 289.4m shares will be offered, with a greenshoe, or over-allotment option, of 36m shares. Of this amount 50m shares are to be placed on to the Venezuelan market; but the number eventually placed with local investors could be much greater, and the government is placing much emphasis on its goal of increasing the base of domestic investors, even if partly to placate growing nationalist sentiment after local political opposition sank efforts earlier this year to sell the Banco de Venezuela.

An additional 9 per cent of Cantv's shares are being reserved for employees, while another 75m shares will be held in reserve by the Fondo de Inversiones de Venezuela (FIV), the privatisation agency. These are being reserved for domestic investors, providing there is enough demand.

Retail investors are being tempted by an incentive in the form of a price discount: 3 per cent if they pay in cash and 5 per cent if purchases are financed by the FIV. FIV credit is available for two years at 12 per cent interest (compared with an annual inflation rate of 115 per cent), with only a 30 per cent down payment, although stock bought in this way cannot be sold until full payment has been made. "They had to make the offer attractive: we are coming out of one of the worst recessions in decades," said one analyst.

Bankers expect the offer could create between 126,000 and 150,000 new shareholders. By comparison, Electricidad de Caracas, the biggest company at present on the stock exchange, has 60,000 shareholders. Retail orders must be placed for a value of between Bs100,000 ($212), for which the FIV guarantees the allocation of shares, and Bs5m ($10,638). An additional 50 per cent of the orders placed will be guaranteed during the first week of book-building, provided there is a sufficient supply.

Retail orders will only be accepted for the first two weeks. "We want to make sure we have at least a week of leeway for everyone to pay on time," said one of the local underwriters, adding that "the credit risk is much larger than what we are used to".

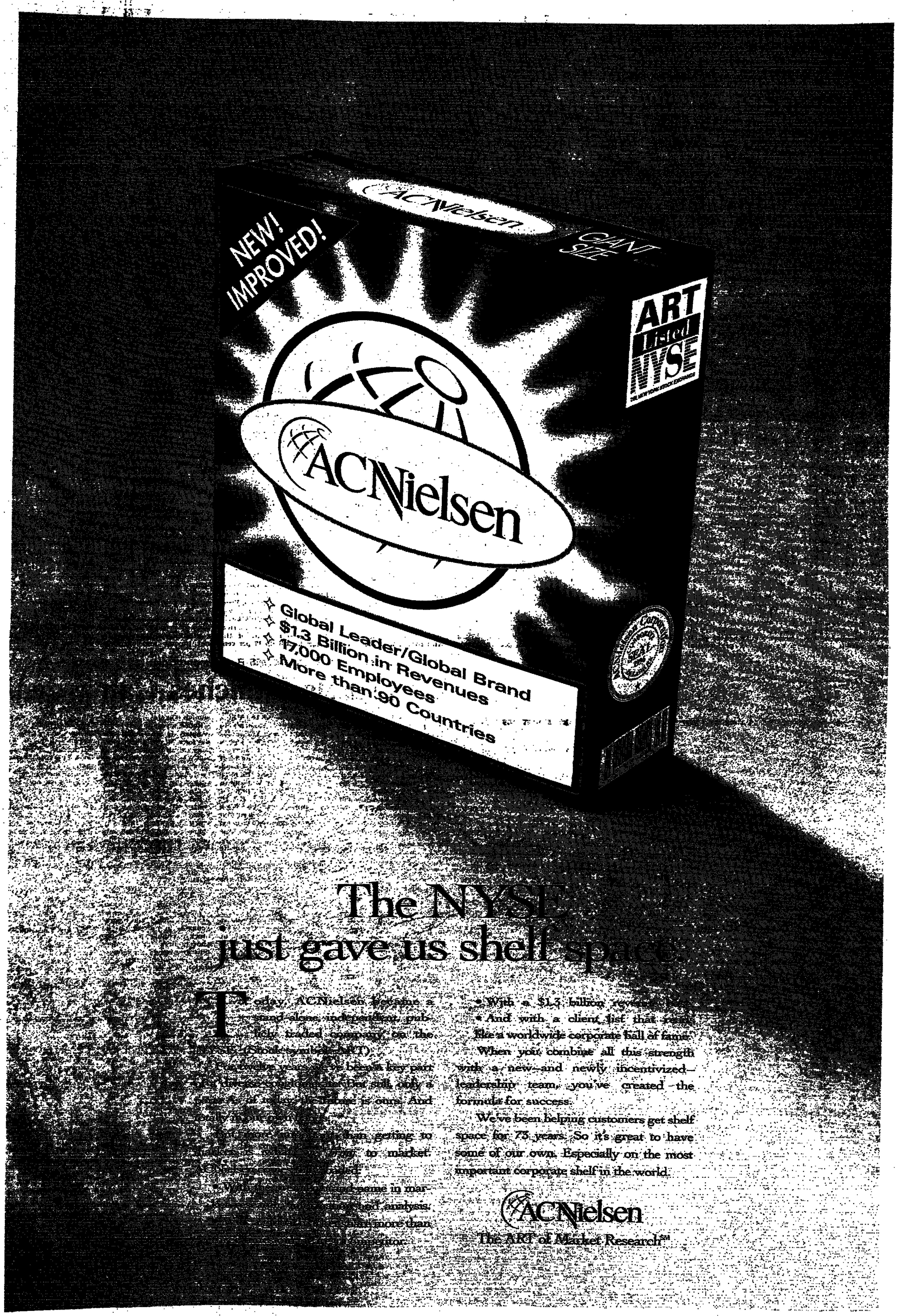
The global managers of the IPO are Lehman Brothers and SBC Warburg, with JP Morgan as co-leader and CS First Boston and DLJ as co-managers in the US. In Europe ABN Amro, Latinvest and Caspian were chosen to aid in the placement of shares. Institutional investors must order a minimum of 200 shares, but have no maximum limit. There is no guaranteed minimum allocation.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY NOVEMBER 1 1996								THURSDAY OCTOBER 31 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (78)	211.47	11.3	191.47	151.84	166.72	178.32	5.0	4.29	213.66	194.53	153.61	168.09	179.20	216.14	179.98	180.28
Austria (24)	180.69	3.5	163.60	129.74	142.45	142.30	9.6	1.86	180.99	164.78	130.13	142.38	142.30	196.04	168.38	172.51
Belgium (27)	219.71	5.0	198.93	157.76	173.22	169.27	11.5	3.94	220.07	200.36	158.22	173.12	169.27	221.99	193.45	193.45
Brazil (28)	*183.88*	*33.3*	*166.47*	*132.01*	*144.95*	*347.76*	*40.9*	*1.76*	181.65	165.68	130.81	143.14	344.09	189.70	123.97	135.15
Canada (116)	182.76	28.1	165.47	131.22	144.09	176.71	20.6	2.04	182.73	166.36	131.37	143.75	177.45	182.76	141.61	141.61
Denmark (30)	327.98	13.6	296.95	235.49	258.58	259.85	19.4	1.77	330.97	301.33	237.95	260.37	261.60	338.30	276.89	290.19
Finland (24)	216.01	15.5	195.58	155.10	170.30	205.97	20.8	2.44	217.81	198.30	156.59	171.35	207.14	229.99	171.73	224.76
France (93)	201.56	12.3	182.50	144.73	158.91	161.98	17.7	3.00	202.15	184.04	145.34	159.03	161.98	202.15	167.70	174.33
Germany (58)	181.00	10.6	163.88	129.96	142.70	142.70	17.2	1.74	179.65	163.57	129.16	141.33	141.33	181.85	157.72	157.72
Hong Kong (59)	466.60	20.4	422.47	335.03	367.87	463.19	20.4	3.30	466.06	424.32	335.06	366.64	462.66	470.59	354.67	376.20
Indonesia (27)	204.66	–	185.30	146.95	161.35	292.37	–	1.72	203.64	185.40	146.41	160.20	290.89	–	–	–
Ireland (16)	316.93	24.0	286.95	227.56	249.87	272.38	21.2	3.30	313.71	285.62	225.54	246.79	271.54	316.93	244.71	244.71
Italy (58)	75.44	2.4	68.31	54.17	59.48	85.74	-1.6	2.42	75.71	68.93	54.43	59.56	85.74	84.53	67.22	71.80
Japan (480)	138.60	-10.5	125.49	99.52	109.27	99.52	-1.5	0.77	137.62	125.30	98.95	108.27	98.95	164.68	137.62	137.95
Malaysia (107)	576.92	18.9	522.35	414.23	454.84	561.70	18.4	1.17	577.40	525.70	415.13	454.24	561.88	587.74	425.77	456.86
Mexico (27)	1163.24	12.3	1053.21	835.23	917.11	10130.12	16.1	1.29	1136.59	1034.81	817.17	894.15	10016.09	1325.65	791.99	923.41
Netherland (19)	307.38	12.7	278.31	220.70	242.34	238.83	19.7	3.07	307.99	280.41	221.43	242.29	238.39	314.85	252.71	255.78
New Zealand (15)	*91.51*	*14.9*	*82.85*	*65.71*	*72.15*	*68.56*	*6.0*	*4.00*	90.82	82.69	65.30	71.45	68.18	94.35	75.94	80.47
Norway (35)	267.07	15.5	241.81	191.76	210.56	231.44	16.7	2.19	264.95	241.22	190.49	208.43	229.26	287.07	222.24	225.46
Philippines (22)	186.37	–	168.74	133.82	146.94	244.13	–	0.85	186.41	169.71	134.02	146.64	244.13	–	–	–
Singapore (43)	379.13	-6.9	343.27	272.22	298.91	246.08	-7.3	1.09	383.29	348.97	275.57	301.53	248.88	485.21	361.94	369.46
South Africa (44)	335.92	-12.8	304.14	241.19	264.84	344.16	12.1	2.23	335.71	305.65	241.37	264.10	344.36	437.76	314.20	359.06
Spain (37)	186.28	12.8	168.66	133.75	146.87	180.14	18.6	3.27	186.53	169.83	134.11	146.74	180.14	190.09	146.66	146.66
Sweden (48)	392.37	25.7	355.25	281.72	309.34	382.48	24.9	2.24	392.17	357.05	281.96	308.52	381.11	400.14	294.19	308.26
Switzerland (37)	240.73	2.0	217.96	172.85	189.79	189.76	12.7	1.56	242.17	220.48	174.11	190.51	188.97	254.34	219.29	224.07
Thailand (45)	113.84	-32.4	103.07	81.74	89.75	112.72	-31.5	3.04	113.67	103.49	81.72	89.42	112.52	193.95	112.17	158.62
United Kingdom (213)	260.75	13.1	236.09	187.22	205.58	236.09	7.2	4.00	260.98	237.61	187.64	205.31	237.61	261.17	222.29	224.19
USA (623)	286.24	13.9	259.17	205.53	225.68	286.24	13.9	2.06	286.66	260.99	206.10	225.51	286.66	289.37	239.34	239.34
Americas (794)	262.17	14.5	237.38	188.25	206.70	220.33	14.5	2.07	262.45	238.94	188.69	206.46	220.63	264.65	218.08	218.08
Europe (719)	223.57	11.3	202.42	160.52	176.26	191.30	12.6	3.01	223.79	203.70	160.85	176.01	191.38	225.29	193.02	193.72
Nordic (137)	334.01	21.1	302.41	239.82	263.33	286.08	22.4	2.19	334.47	304.52	240.47	263.12	285.69	339.67	261.13	278.99
Pacific Basin (876)	154.71	-5.4	140.07	111.08	121.97	112.20	0.8	1.25	153.96	140.18	110.69	121.12	111.74	177.01	148.95	148.95
Euro-Pacific (1595)	183.28	1.8	165.95	131.60	144.50	142.01	6.3	2.16	182.92	166.54	131.51	143.90	141.76	190.57	167.52	167.52
North America (739)	280.10	14.4	253.60	201.11	220.83	279.06	14.3	2.08	280.48	255.36	201.65	220.65	279.50	282.57	233.30	233.30
Europe Ex. UK (506)	198.96	10.3	180.14	142.86	156.86	164.95	15.7	2.42	199.09	181.26	143.14	156.62	164.44	201.22	173.04	173.20
Pacific Ex. Japan (396)	296.39	12.0	268.36	212.81	233.68	256.25	9.9	2.90	297.25	270.63	213.71	233.84	255.63	299.79	243.59	251.99
World Ex. US (1810)	185.38	2.5	167.85	133.11	146.16	147.21	7.2	2.13	184.99	168.43	133.00	145.53	146.97	191.55	168.49	168.49
World Ex. UK (2220)	212.79	6.6	192.66	152.78	167.76	182.28	10.3	1.90	212.63	193.59	152.86	167.28	182.09	216.41	186.97	188.97
World Ex. Japan (1953)	258.43	12.8	233.99	185.56	203.75	243.06	13.5	2.44	258.70	235.53	186.00	203.52	243.32	260.37	219.20	219.20
The World Index (2433)	216.90	7.2	196.38	155.74	171.00	187.17	10.0	2.11	216.79	197.36	155.85	170.54	187.12	220.11	190.22	190.22

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.84 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 122.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Indonesia and Philippines June 28 1996 = 214.14 (US $ Index), 204.33 (Pound Sterling) and 184.40 (Local). *PLEASE NOTE: Correction to previous announcement: Cognizant Corp (USA) (Medium-Small Cap) will be an addition to the Indices with effect 4/11/96.* CONSTITUENT CHANGES DURING THE WEEK ENDING 1/11/96: Addition: Kemira Oy (Finland) (Large Cap) (49.9% weighting). Share weighting increase: E.N.I. (15% weighting to 26.76% weighting) (Italy). Any further weighting changes will be announced in due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MARKETS: This Week

NEW YORK By John Authers

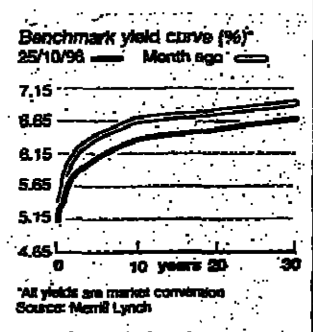
One item of information will be particularly keenly awaited by the US bond markets this week – the identity of the party which will control the House of Representatives for the next two years.

A successful Clinton re-election bid is already fully reflected in stock and bond prices, but there is increasing anxiety in the market over the House, particularly given the "anti-business" reputations of some of the Democrats who would take over committee chairmanships.

Dealers might also welcome the dose of certainty which the elections will provide after recent volatility. Last week saw the equity market fluctuate broadly, with the Dow Jones Industrial Average closing below 6,000 on two occasions. The bond market continued its sustained rally until Friday, when profit-takers pushed the yield on the benchmark Treasury long bond back up to 6.68 per cent. It had traded to yield more than 7 per cent for most of the year.

The late fall in bond prices followed gains made on the back of Friday's employment and factory price figures, which were in line with expectations. The unemployment rate remained at 5.2 per cent in October, the same level as in September. Average earnings remained unchanged.

Thursday will see the release of consumer credit figures for September, generally regarded as a good indicator of demand in the economy. The consensus forecast, according to MMS International, the research organisation, is for an increase of $5.3bn, compared with the previous month's $3.3bn.



LONDON By Philip Coggan

Reaction to the British Telecom/MCI merger will dominate trading in the London equity market today as investors digest the implications of the deal.

Equities are still recovering from last week's move Mr Kenneth Clarke, the chancellor of the exchequer, to raise base rates by a quarter of a percentage point.

Shares rarely do well when interest rates are rising but even gilts showed little enthusiasm for Mr Clarke's apparent display of anti-inflationary zeal.

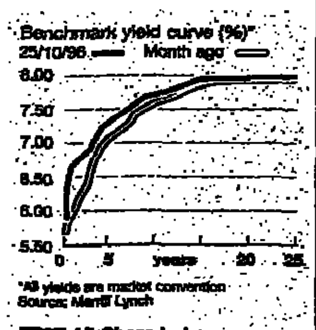
Some cynics suggested the rate rise might be a sop to the markets before a give-away Budget later this month; others argued that, since a quarter-point move was hardly likely to have much effect on the economy, further rises were likely to follow.

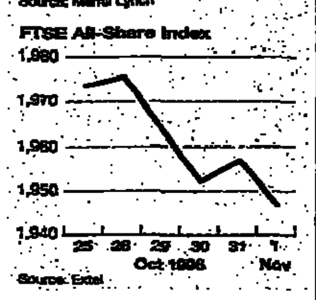
On the latter issue, the main focus of the week will be the Bank of England's quarterly inflation report on Wednesday. The Bank was widely seen as having pressured the chancellor into last week's move.

"On the basis that one quarter-point rise in base rates is unlikely to quell the Bank's inflation concerns, we think it will be calling for more in the future," says Mr Nigel Richardson, head of bond research at Yamaichi International (Europe).

The industrial production and manufacturing output figures will show whether that sector is recovering, as suggested by last Friday's survey of purchasing managers. The consensus is for month-on-month rises of 0.5 per cent.

A raft of results will also give a clue to the health of the corporate sector. British Airways, BP and Marks and Spencer are among the companies reporting.





FRANKFURT By Andrew Fisher

All eyes will be on the US this week but the presidential election will not be the only news awaited by followers of German bond and stock markets. Industrial production, new order and unemployment data are due, with several big companies releasing nine-months results. Also *looming is the huge part-privatisation share* issue by Deutsche Telekom, which analysts expect to be twice or three times oversubscribed; the initial share price will be set in two weeks.

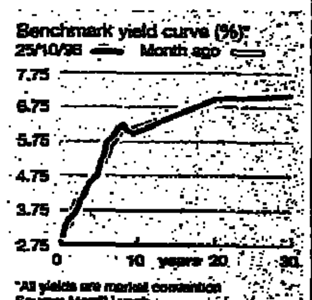
Anxiety over the possibility of budget-fudging to ensure a punctual start to European monetary union in 1999 could also affect sentiment. Several bankers expect the markets to suffer further upset – for political or economic reasons – in the run-up to Emu, despite their recent calmness.

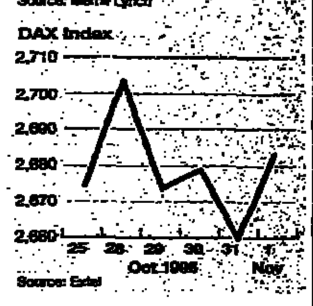
France's attempt to squeeze through the Maastricht criteria by means of big pension fund transfers from France Télécom has set alarm bells ringing.

"This kind of fudging is erasing all efforts to lend credibility to the Emu project and to promote confidence in the future euro's stability," warned Frankfurt-based economists at Industrial Bank of Japan.

Since the European Commission and the European Monetary Institute are about to publish reports on progress towards Emu convergence – the EMI holds its monthly council meeting tomorrow – markets will soon have plenty to digest.

On the domestic front, results from Commerzbank – following profit rises at its main rival banks – and the big chemical concerns could add stimulus to a stock market which has already set new records this year.





TOKYO By Gwen Robinson

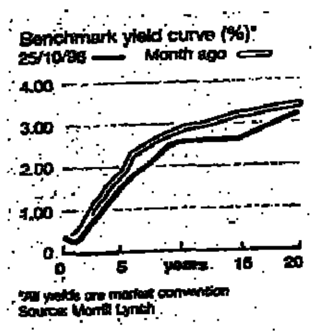
For the short week following Japan's three-day holiday weekend, markets will be focused on the US elections and, domestically, the inauguration of the new government after the expected November 7 special parliamentary session to confirm the prime minister. The equity market, in particular, *is likely to* continue lurching along on thin volume, with the Nikkei Average staying between 20,000 and 21,000.

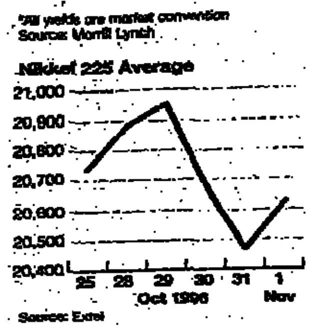
Suspicion that the new government will be even less stable than the last has outweighed relief over the return of the conservative LDP in last month's election. While still dominant, the LDP is short of an outright majority and vulnerable to the demands of its unofficial partners, including the Socialists, who have agreed to back it on key issues.

The stock market, in particular, has shown disappointment with the political outcome, particularly the LDP's back-pedalling on promises of stimulus measures.

Foreign investors, who helped drive the market up in the middle of the year, have accelerated selling on concern that the strength of the dollar will hurt their yen-denominated stocks. Equity traders said some large US mutual fund operators had been unwinding Japanese equity holdings, as had non-resident securities houses with book-closing at the end of November.

The heavy foreign selling has not only dragged down the market, but also discouraged domestic investors from active buying. However, analysts believe that a rise in the yen's value may encourage the return of foreign buying interest.





COMMODITIES By Susanna Voyle

Focus falls on the regulators

Metals market participants will be watching for more news on regulatory reform this week. The Securities and Investment Board, the main UK regulator, is reviewing the 80 responses it has received from the industry.

London Metal Exchange officials – in Australia today for a conference in Melbourne – said last week that reforms could come as soon as the end of the year, when the SIB report is presented.

The review of the market, which dominates world metals trading with 95 per cent of the world's copper futures and 100 per cent in most other, metals, was prompted by the Sumitomo scandal. Mr Yasuhiro Hamanaka, Sumitomo's chief metals trader, ran up losses estimated at $2.6bn in unauthorised trading.

The SIB said that one of the most frequently highlighted areas of concern was the composition of the LME board and whether this created conflicts of interest. The LME board is made up of broker members, and it has been suggested that reform should include the appointment of more independent directors.

Mr David King, LME chief executive, said the exchange expected not to have to introduce fundamental changes after the SIB review, "just fine-tuning".

He said that the LME, which invited the SIB review, would use the report as a catalyst to introduce changes it already had in mind, mainly in the area of providing more data on stocks and their locations.

"Of course we can provide more data, but we don't wish to bury people in mountains of it," said Mr King.

"We will seek changes which may require changes in the Financial Services Act. This may mean asking for enhanced information on over-the-counter business from members."

He said the LME was proud of its record on reform and regulation. "We stand by what we have done over the years. We are always reviewing and actively changing."

OTHER MARKETS Compiled by William Cochrane

MOSCOW

Indications that President Boris Yeltsin's heart bypass operation is imminent will produce further apprehension in eastern and western European equity markets this week. Confirmation that the treatment has been completed successfully, however, would remove a small cloud that has hung over Frankfurt, Zurich and Vienna in recent weeks. The domestic market, on hold at the end of last week, is unlikely to make further progress while the operation still looms.

AMSTERDAM

Third-quarter results from KNP BT, in paper, printing and packaging, DSM in chemicals and oil major Royal Dutch all disappointed the market last week. This *week brings airline, KLM*, another chemicals group, Akzo Nobel, and foods to detergents giant, Unilever.

KLM is expected to produce a 10 per cent drop in July/September earnings, in spite of an exceptional contribution from the sale of Northwest Airlines preferential shares back to Northwest. UBS says only further restructuring or a share buy-back will boost the shares. In a move that goes against tradition, Mr Pieter Bouw, KLM president, is expected to comment on the figures tomorrow, and analysts will be hoping to hear more about the potential restructuring of the European airlines industry.

Akzo Nobel, due on Wednesday, is likely to be held down by a loss in fibres but UBS, at the higher end of a Fl 315–Fl 343m earnings *range, says the company* should benefit from downstream chemical and health-care exposures. For Unilever, expected on Friday, hopes of restructuring and sell-offs raised by recent statements by Mr Niall Fitzgerald, the UK co-chairman of the UK/Dutch complex, were modified later last month by Mr Morris Tabaksblat, his Dutch counterpart, who said the activities in question at Unilever NV would account for less than 10 per cent of sales.

HONG KONG

A note of caution is expected to descend on the Hong Kong market this week, fed by uncertainty in the US, *writes Louise Lucas*. Longer-term, however, brokers are bullish that the Hang Seng index – which closed on Fri*day at a record 12,529.27* – will climb higher in the run-up to Christmas.

Investors will start the week digesting October US jobs data – released on Friday night Hong Kong time – and are likely to be sidelined by uncertainty ahead of the US presidential elections. The Hong Kong stock mar*ket is now closely linked to* the US long bond yield, which could be affected by the job figures and their implications for economic growth and inflation.

Turnover in the Hong Kong market, which has been strong, may also retreat this week, brokers reckon. Points of interest include a rash of new listings, one of which is the China Resources spin-off, Beijing Land, whose Hong Kong IPO was said to be very heavily oversubscribed. Investors will also be looking at Hongkong Telecom, once the market's highest capitalisation stock, which is due to release its interim results tomorrow.

SYDNEY

Low inflation and wages growth may enable the *Reserve Bank of Australia to* cut rates by up to 50 basis points at its meeting tomorrow, analysts said last Friday. The reduction would take the official cash rate to 6.50 per cent, its lowest level in two years. Banks were weak on Friday ahead of the US payrolls report later that day, but traders said domestic interest rates, and London Metal Exchange base metal price fluctuations, would be an important focus this week.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
LVMH (France)	DFS (US)	Retailing	$2.47bn	Majority stake
CalEnergy (US)	Northern Elect (UK)	Power	$1.22bn	REC buying?
Henkel (Germany)	Loctite (US)	Adhesives	$1.1bn	Bid for control
Anglo American (SA)	Lonrho (UK)	Holding company	$411m	Book sells stake
PetsMart (US)	Pet City (UK)	Retailing	$224m	European platform for buyer
Proton (Malaysia)	Lotus (UK)	Car maker	$81m	Leapfrog in cars
Bridgestone (Japan)	Fedstone (SA)	Tyres	$62m	Agreed in principle
Perkins Foods (UK)	Disselkoen (N'lands)	Food	$25m	Continued Euro-growth

CURRENCIES By Graham Bowley

US elections and pound to be centre of attention

By Graham Bowley

The US presidential elections will be the centre of market attention this week. A Clinton victory has already been priced into the market. More crucial will be which party gains the upper hand in Congress.

A Congress dominated by Democrats would probably lead to a weakening of the dollar, since they are likely to be looser on fiscal policy than the Republicans.

After last week's quarter point rise in interest rates to 6 per cent, the UK economy and the pound will also be in focus this week.

The pound surged again last week, raising concerns that its strength might damage UK exporters. But industrial production figures due tomorrow are expected to show manufacturing output continuing its consumer-led recovery, regardless of the currency's strength. Signs of stronger growth in manufacturing will fuel the pound's appreciation, as will evidence of continued strength on UK high streets in Thursday's distributive trades survey by the CBI.

The Bank of England will give its view on the pound's strength and whether another rise in interest rates is needed in its quarterly inflation report on Wednesday. Financial futures markets still expect Mr Kenneth Clarke, the chancellor, to have to raise interest rates a few more quarter points before the UK general election, expected next spring.

The Bundesbank's council meets on Thursday but is expected to leave interest rates unchanged.

Traders will be keen to see how the Swiss franc performs. The currency fell last week over fears that the authorities would suspend Swiss banking laws, which might trigger a flow of assets out of the country.

The European Monetary Institute's monthly meeting tomorrow may attract more attention than usual given the recent debate over countries' attempts to meet the Maastricht fiscal criteria.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, November 1, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7778.37	4750.00	3132.21	4181.71
Albania	(Lek)	177.019	108.100	71.2826	95.1688
Algeria	(Dinar)	92.0304	56.2000	37.0590	49.4762
Andorra	(French Fr)	8.3892	5.1230	3.3782	4.5101
	(Sp Peseta)	209.025	127.645	84.1708	112.373
Angola	(Readj Kwanza)(1)	330775.5	201994.0	133197.5	177827.3
Antigua	(E Carib $)	4.4214	2.7000	1.7804	2.3770
Argentina	(Peso)	1.6368	0.9995	0.6591	0.8799
Armenia	(Dram)	689.442o	421.020	277.626	370.649
Aruba	(Florin)	2.9312	1.7900	1.1804	1.5759
Australia	(Aus $)	2.0762	1.2678	0.8360	1.1161
Austria	(Schilling)	17.4855	10.6656	7.0330	9.3896
Azerbaijan	(Manat)	6926.84o	4230.00	2789.32	3723.92
Azores	(Port Escudo)	251.037	153.300	101.088	134.959
Bahamas	(Bahama $)	1.6376	1	0.6594	0.8804
Bahrain	(Dinar)	0.6176	0.3772	0.2487	0.3321
Balearic Is	(Sp Peseta)	209.025	127.645	84.1708	112.373
Bangladesh	(Taka)	69.3503	42.3500	27.9261	37.2832
Barbados	(Barb $)	3.2936	2.0113	1.3263	1.7707
Belarus	(Rouble)	37037.3o	22617.5	14914.3	19911.5
Belgium	(Belg Fr)	51.1571	31.2400	20.6001	27.5024
Belize	(B $)	3.2751	2.0000	1.3188	1.7607
Benin	(CFA Fr)	838.920	512.300	337.817	451.008
Bermuda	(Bermudian $)	1.6376	1	0.6594	0.8804
Bhutan	(Ngultrum)	58.3788	35.6500	23.5081	31.3848
Bolivia	(Boliviano)	8.5153	5.2000	3.4289	4.5779
Botswana	(Pula)	5.9229	3.6166	2.3849	3.1839
Brazil	(Real)	1.6828	1.0276	0.6776	0.9047
Brunei	(Brunei $)	2.3065	1.4085	0.9288	1.2400
Bulgaria	(Lev)	399.644	244.050	160.930	214.852
Burkina Faso	(CFA Fr)	838.920	512.300	337.817	451.008
Burma	(Kyat)	9.7976	5.9831	3.9453	5.2673
Burundi	(Burundi Fr)	360.562	220.184	145.192	193.841
Cambodia	(Riel)	3766.37	2300.00	1516.65	2024.83
Cameroon	(CFA Fr)	838.920	512.300	337.817	451.008
Canada	(Canadian $)	2.1865	1.3353	0.8805	1.1755
Canary Is	(Sp Peseta)	209.025	127.645	84.1708	112.373
Cp. Verde	(CV Escudo)	135.869	82.9700	54.7115	73.0434
Cayman Is	(CI $)	1.3582	0.8292	0.5461	0.7291
Cent. Afr. Rep	(CFA Fr)	838.920	512.300	337.817	451.008
Chad	(CFA Fr)	838.920	512.300	337.817	451.008
Chile	(Chilean Peso)	688.181	420.250	277.118	369.971
China	(Yuan)	13.5917	8.3000	5.4731	7.3070
Colombia	(Col Peso)	1635.18	998.550	658.457	879.083
Comoros	(Fr)	628.820	384.000	253.215	338.058
Congo	(CFA Fr)	838.920	512.300	337.817	451.008
Costa Rica	(Colon)	353.711	216.000	142.433	190.156
Côte d'Ivoire	(CFA Fr)	838.920	512.300	337.817	451.008
Croatia	(Kuna)	8.8242	5.3887	3.5534	4.7440
Cuba	(Cuban Peso)	1.6376	1	0.6594	0.8804
Cyprus	(Cyprus £)	0.7561	0.4617	0.3045	0.4065
Czech Rep.	(Koruna)	44.0812	26.9190	17.7507	23.6984
Denmark	(Danish Krone)	9.5392	5.8253	3.8413	5.1284
Djibouti Rep	(Djib Fr)	270.198	165.000	108.803	145.259
Dominica	(E Carib $)	4.4214	2.7000	1.7804	2.3770
Dominican Rep	(D Peso)	22.5655	13.7800	9.0867	12.1314
Ecuador	(Sucre)	5440.76o	3322.50	2190.90	2924.99
	(Sucre)	5451.41a	3329.00	2195.19	2930.72
Egypt	(Egyptian £)	5.5677	3.4000	2.2420	2.9933
El Salvador	(Colon)	14.3368	8.7550	5.7732	7.7076
Equat'l Guinea	(CFA Fr)	838.920	512.300	337.817	451.008
Estonia	(Kroon)	19.8556	12.1252	7.9955	10.6745
Ethiopia	(Ethiopian Birr)	9.8253	6.0000	3.9565	5.2822
Falkland Is	(Falk £)	1	0.6107	0.4027	0.5376
Faroe Is	(Danish Krone)	9.5392	5.8253	3.8413	5.1284
Fiji Is	(Fiji $)	2.2713	1.3870	0.9146	1.2210
Finland	(Markka)	7.4401	4.5434	2.9960	3.9998
France	(Fr)	8.3892	5.1230	3.3782	4.5101
Fr. Cty/Africa	(CFA Fr)	838.920	512.300	337.817	451.008
Fr. Guiana	(Local Fr)	8.3892	5.1230	3.3782	4.5101
Fr. Pacific Is	(CFP Fr)	152.679	93.2363	61.4812	82.0814
Gabon	(CFA Fr)	838.920	512.300	337.817	451.008
Gambia	(Dalasi)	16.1662	9.8740	6.5111	8.6927
Germany	(D-Mark)	2.4833	1.5165	1	1.3351
Ghana	(Cedi)	2800.21	1710.00	1127.60	1505.41
Gibraltar	(Gib £)	1	0.6107	0.4027	0.5376
Greece	(Drachma)	390.359	238.380	157.191	209.860
Greenland	(Danish Krone)	9.5392	5.8253	3.8413	5.1284
Grenada	(E Carib $)	4.4214	2.7000	1.7804	2.3770
Guadaloupe	(Local Fr)	8.3892	5.1230	3.3782	4.5101
Guam	(US $)	1.6376	1	0.6594	0.8804
Guatemala	(Quetzal)	9.9357	6.0674	4.0008	5.3415
Guinea	(Fr)	1662.11	1015.00	669.304	893.565
Guinea-Bissau	(Peso)	29534.9	18036.0	11893.2	15878.2
Guyana	(Guyanese $)	227.456	138.900	91.5925	122.282
Haiti	(Gourde)	25.0071	15.2710	10.0699	13.4440
Honduras	(Lempira)	20.7969	12.7000	8.3746	11.1806
Hong Kong	(HK $)	12.6615	7.7320	5.0986	6.8069
Hungary	(Forint)	254.782	155.575	102.588	136.962
Iceland	(Icelandic Krona)	108.864	66.4800	43.8378	58.5263
India	(Indian Rupee)	58.3788	35.6500	23.5081	31.3848
Indonesia	(Rupiah)	3813.36	2328.70	1535.58	2050.09
Iran	(Rial)	4912.65u	3000.00	1978.24	2641.08
Iraq	(Iraqi Dinar)	0.5091o	0.3109	0.2050	0.2737
Iraq	(Iraqi Dinar)	2947.59m	1800.00	1186.94	1584.65
Irish Rep	(Punt)	0.9988	0.6099	0.4022	0.5370
Israel	(Shekel)	5.3301	3.2548	2.1463	2.8655
Italy	(Lira)	2491.94	1521.75	1003.46	1339.69
Jamaica	(Jamaican $)	56.0043	34.2000	22.5519	30.1083
Japan	(Yen)	186.009	113.590	74.9027	100
Jordan	(Jordanian Dinar)	1.1623	0.7098	0.4681	0.6249
Kazakhstan	(Tenge)	115.374	70.4550	46.4590	62.0257
Kenya	(Kenya Shilling)	91.2116	55.7000	36.7293	49.0360
Kiribati	(Australian $)	2.0762	1.2678	0.8360	1.1161
Korea North	(Won)	3.5208	2.1500	1.4177	1.8928
Korea South	(Won)	1350.49	824.700	543.818	726.032
Kuwait	(Kuwaiti Dinar)	0.4904	0.2995	0.1975	0.2637
Laos	(New Kip)	1508.55	920.000	606.660	809.931
Latvia	(Lats)	0.8965	0.5487	0.3618	0.4830
Lebanon	(Lebanese £)	2548.85	1556.50	1026.38	1370.28
Lesotho	(Maluti)	7.6760	4.6875	3.0910	4.1267
Liberia	(Liberian $)	1.6376	1	0.6594	0.8804
Libya	(Libyan Dinar)	0.5822	0.3555	0.2344	0.3130
Liechtenstein	(Swiss Fr)	2.0822	1.2715	0.8384	1.1194
Lithuania	(Litas)	6.5523	4.0013	2.6385	3.5225
Luxembourg	(Lux Fr)	51.1571	31.2400	20.6001	27.5024
Macao	(Pataca)	13.0795	7.9872	5.2669	7.0316
Macedonia	(Denar)	65.9512	40.2743	26.5574	35.4559
Madagascar	(MG Fr)	6468.33	3950.00	2604.68	3477.42
Madeira	(Port Escudo)	251.037	153.300	101.088	134.959
Malawi	(Kwacha)	25.1774	15.3750	10.1385	13.5355
Malaysia	(Ringgit)	4.1388	2.5280	1.6670	2.2255
Maldive Is	(Rufiya)	19.2740	11.7700	7.7613	10.3618
Mali Rep	(CFA Fr)	838.920	512.300	337.817	451.008
Malta	(Maltese Lira)	0.5898	0.3601	0.2374	0.3170
Martinique	(Local Fr)	8.3892	5.1230	3.3782	4.5101
Mauritania	(Ouguiya)	227.259	138.780	91.5134	122.176
Mauritius	(Maur Rupee)	33.4081	20.4000	13.4520	17.9593
Mexico	(Mexican Peso)	13.0431	7.9650	5.2522	7.0121
Miquelon	(Local Fr)	8.3892	5.1230	3.3782	4.5101
Moldova	(Leu)	7.5409	4.6050	3.0366	4.0541
Monaco	(French Fr)	8.3892	5.1230	3.3782	4.5101
Mongolia	(Tugrik)	764.032	466.570	307.662	410.749
Montserrat	(E Carib $)	4.4214	2.7000	1.7804	2.3770
Morocco	(Dirham)	14.2464	8.6998	5.7434	7.6678
Mozambique	(Metical)	18243.1	11140.5	7346.19	9807.64
Namibia	(S A Rand)	7.6760	4.6875	3.0910	4.1267
Nauru Is	(Australian $)	2.0762	1.2678	0.8360	1.1161
Nepal	(Nepalese Rupee)	91.3344	55.7750	36.7788	49.1020
Netherlands	(Guilder)	2.7877	1.7024	1.1226	1.4987
N'nd Antilles	(A/Guilder)	2.9312	1.7900	1.1804	1.5759
New Zealand	(NZ $)	2.3112	1.4113	0.9307	1.2425
Nicaragua	(Gold Cordoba)	14.3367	8.7582	5.7740	7.7086
Niger Rep	(CFA Fr)	838.920	512.300	337.817	451.008
Nigeria	(Naira)	36.0261o	22.0000	14.5071	19.3679
	(Naira)	132.642m	81.0000	53.4125	71.3081
Norway	(Nor. Krone)	10.4551	6.3846	4.2101	5.6207
Oman	(Rial Omani)	0.6305	0.3850	0.2539	0.3389
Pakistan	(Pak. Rupee)(3)	65.6329	40.0799	26.4292	35.2847
Panama	(Balboa)	1.6376	1	0.6594	0.8804
Papua New Guinea	(Kina)	2.1855	1.3346	0.8801	1.1749
Paraguay	(Guarani)	3422.48	2090.00	1378.17	1839.95
Peru	(New Sol)	4.2208	2.5775	1.6996	2.2691
Philippines	(Peso)	43.0431	26.2850	17.3327	23.1402
Pitcairn Is	(£ Sterling)	1	0.6107	0.4027	0.5376
	(NZ $)	2.3112	1.4113	0.9307	1.2425
Poland	(Zloty)	4.6096	2.8149	1.8562	2.4781
Portugal	(Escudo)	251.037	153.300	101.088	134.959
Puerto Rico	(US $)	1.6376	1	0.6594	0.8804
Qatar	(Riyal)	5.9611	3.6403	2.4004	3.2047
Reunion Is. de la	(F/Fr)	8.3892	5.1230	3.3782	4.5101
Romania	(Leu)	5596.33	3417.50	2253.54	3008.63
Russia	(Rouble)	8945.94m	5463.00	3602.37	4809.40
Rwanda	(Fr)	532.443	325.146	214.406	286.245
St Christopher	(E Carib $)	4.4214	2.7000	1.7804	2.3770
St Helena	(£)	1	0.6107	0.4027	0.5376
St Lucia	(E Carib $)	4.4214	2.7000	1.7804	2.3770
St Pierre	(French Fr)	8.3892	5.1230	3.3782	4.5101
St Vincent	(E Carib $)	4.4214	2.7000	1.7804	2.3770
San Marino	(Italian Lira)	2491.94	1521.75	1003.46	1339.69
Sao Tome	(Dobra)	3905.77	2385.13	1572.79	2099.77
Saudi Arabia	(Riyal)	6.1417	3.7505	2.4731	3.3018
Senegal	(CFA Fr)	838.920	512.300	337.817	451.008
Seychelles	(Rupee)	8.1910	5.0020	3.2984	4.4036
Sierra Leone	(Leone)	1424.67	870.000	573.689	765.913
Singapore	($)	2.3065	1.4085	0.9288	1.2400
Slovakia	(Koruna)	51.1489	31.2350	20.5968	27.4980
Slovenia	(Tolar)	225.265	137.562	90.7102	121.104
Solomon Is	($)	5.7971	3.5401	2.3344	3.1166
Somali Rep	(Shilling)	4290.38	2620.00	1727.66	2306.54
South Africa	(Rand)	7.6760	4.6875	3.0910	4.1267
Spain	(Peseta)	209.025	127.645	84.1708	112.373
Spanish Ports in N Africa	(Sp Peseta)	209.025	127.645	84.1708	112.373
Sri Lanka	(Rupee)	93.4796	57.0850	37.6426	50.2553
Sudan Rep	(Dinar)	239.083	146.000	96.2743	128.533
Surinam	(Guilder)	671.396	410.000	270.359	360.947
Swaziland	(Lilangeni)	7.6760	4.6875	3.0910	4.1267
Sweden	(Krona)	10.7929	6.5848	4.3421	5.7970
Switzerland	(Fr)	2.0822	1.2715	0.8384	1.1194
Syria	(£)	68.6953	41.9500	27.6624	36.9311
Taiwan	($)	45.0406	27.5050	18.1372	24.2143
Tanzania	(Shilling)	966.155	590.000	389.054	519.412
Thailand	(Baht)	41.7605	25.5140	16.8243	22.4615
Togo Rep	(CFA Fr)	838.920	512.300	337.817	451.008
Tonga Is	(Pa'anga)	2.0762	1.2678	0.8360	1.1161
Trinidad/Tobago	($)	9.9177	6.0564	3.9937	5.3318
Tunisia	(Dinar)	1.5913	0.9718	0.6408	0.8555
Turkey	(Lira)	158793.2	96970.0	63943.3	85368.4
Turks & Caicos	(US $)	1.6376	1	0.6594	0.8804
Tuvalu	(Australian $)	2.0762	1.2678	0.8360	1.1161
Uganda	(New Shilling)	1784.93	1090.00	718.760	959.592
Ukraine	(Hryvna)(2)	2.8924	1.7663	1.1647	1.5550
U A E	(Dirham)	6.0139	3.6725	2.4217	3.2331
United Kingdom	(£)	1	0.6107	0.4027	0.5376
United States	(US $)	1.6376	1	0.6594	0.8804
Uruguay	(Peso Uruguayo)	13.8864	8.4800	5.5918	7.4655
Vanuatu	(Vatu)	181.613	110.905	73.1322	97.6362
Vatican	(Lira)	2491.94	1521.75	1003.46	1339.69
Venezuela	(Bolivar)(2)	771.704v	471.255	310.752	414.874
Vietnam	(Dong)	18119.5	11065.0	7296.41	9741.17
Virgin Is-British	(US $)	1.6376	1	0.6594	0.8804
Virgin Is-US	(US $)	1.6376	1	0.6594	0.8804
Western Samoa	(Tala)	3.9784	2.4295	1.6021	2.1388
Yemen (Rep of)	(Rial)	212.882r	130.000	85.7237	114.447
Yugoslavia	(New Dinar)	8.1604	4.9833	3.2861	4.3871
Zaire Rep	(Zaire)	137187.0	83763.5	55234.9	73742.0
Zambia	(Kwacha)	2079.69	1270.00	837.455	1118.06
Zimbabwe	($)	17.3204	10.5770	6.9746	9.3116
ECU	(ECU)	1.2942	0.7903	0.5211	0.6957
SDR	(SDR)	1.12582	0.691453	0.457128	0.607904

Abbreviations: (a) Free rate; (m) Market rate; (o) Official rate; (c) Parallel rate; (t) Tourist rate; (u) Currency fixed against the US Dollar (v) Floating rate (1) Angolan Readjusted Kwanza devalued on 4/3/96. (2) Two tier rate replaced by floating Venezuelan Bolivar 22/4/96 (3) Pakistan Rupee devalued by 7.6% against US dollar 22/10/96: Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries 0171 634 4365.

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THE BT-MCI DEAL

Maverick looks to marriage as path to maturity

MCI was born in the 60s with a contempt for monopolies, writes Tony Jackson

Perhaps the most succinct description of the BT-MCI deal came yesterday from Sir Peter Bonfield, BT's chief executive. It was, he said, a merger between "the world's most successful market entrant and the world's most successful market defender".

MCI is the maverick among telecoms operators. Since its humble beginnings almost 30 years ago, it has prided itself on taking on and beating what its executives contemptuously call the "phone companies": the old-style monopolies or former monopolies, such as AT&T or the Baby Bells.

Although it would be indiscreet of MCI to say so, a fine example of the old-style "phone company" is BT. The UK group has proved adroit at fending off new competitors from its old monopoly turf. In that sense, the two companies may have much to teach each other.

MCI's origins lie in the late 1960s, with the installation of microwave towers along the highway from Chicago and St Louis to allow truckers to communicate by mobile phone with head office.

By January 1971 it had become the first company authorised to compete against AT&T in the US domestic long-distance market.

As Mr Gerald Taylor, MCI's president and one of its first half-dozen employees, said yesterday: "We were born in the 1960s – a time of turmoil, change and even chaos. That undoubtedly shaped what we are today."

Another thing which shaped it was the intense hostility of the incumbent monopolist, AT&T. To win the right to use AT&T's networks, MCI spent its early days in perpetual litigation.

"Someone described the early MCI", Mr Taylor said, "as a law office with an antenna on its roof."

Another element marking it off from the conventional phone company was its financing. For many years, it paid for its headlong growth from hand to mouth. In the 1980s, it relied heavily on junk bond issues through Mr Michael Milken, the disgraced financier.

There is no denying the company's growth record. Between 1980 and 1985, Mr Taylor recalled, it increased its sales and employees by a factor of 10. At the start of the 1990s, it had half the revenues of today. In the first nine months of this year, sales rose 21 per cent.

It also prides itself on its marketing. From MCI's viewpoint, the defining characteristic of the average "phone company" is that it has captive customers. MCI claims to have one of the best marketing databases in the US, which enables it to classify customers by 2,000 variables.

A clear example of its marketing prowess is its "Friends and Family" programme, which allows discounts on frequent long-distance calls to specified individuals. The scheme has been taken up by BT in the UK.

MCI also stole a march on its US competitors earlier this year with its MCI One brand, a one-stop phone package offering a cellular phone, a pager, an e-mail address and Internet access.

Consumer marketing apart, MCI's other main expertise is in the sophisticated services it offers business clients, which still supply two thirds of its revenues. It relies heavily on technology, such as its so-called "intelligent network" and its leading position in supplying the backbone to the Internet.

But it claims to shop around for technology, rather than develop its own. Pushing proprietary technology at the customers, MCI argues, is typical of the old-style monopolies.

There may be an element of conflict here. One of the attractions of the deal, Mr Taylor said, was that "BT has a lot to teach us in the area of technology". It remains to be seen how BT's engineers will react to MCI shopping around.

But any possible drawbacks for MCI, it is clear, are overridden by one paramount consideration. The deregulation of the US phone industry faces the company with a novel challenge.

Attacking local phone markets will come naturally enough to "the world's most successful market entrant".

But for the first time, MCI also finds its own traditional market, long distance telephony, under attack from a new set of competitors.

Like BT, it must learn to be a market defender. Besides new skills, this will take money. US telephony, Mr Taylor remarked, "is an industry with a voracious appetite for capital".

MCI is now in the middle of a $2bn capital spending programme to build its own capacity in local markets. BT's financial backing, he said, would allow MCI to be "more aggressive": that is, bring its spending forward.

BT, meanwhile, seems to be relying heavily on MCI's ability to open up markets. "There is no doubt in my mind", Mr Robert Brace, BT's finance director, said yesterday, "that the best returns for us will be in the US local market. If I were a betting man, I'd put my money on MCI opening that up."

And, of course, BT has done just that.

■ BT'S MARKET – By Alan Cane

Megamerger ends year of ups and downs

When Sir Peter Bonfield joined British Telecommunications on January 1 this year, he recommended fastening seat belts: "We are in for a rollercoaster ride."

Not even he could have predicted the ups and downs of the company's progress this year: from a failed attempt to merge with the UK-based telecoms group Cable and Wireless in April through a cliffhanger of a battle with the telecoms watchdog – still to be resolved in the courts – to yesterday's megamerger.

Sir Peter says he wants to see some of MCI's chutzpah injected into the UK company. Observers might claim by the standards of Post Office Telephones of the 1970s, BT has already developed aggression to a fine degree. The UK telecoms market was opened to limited competition in 1982 and BT was privatised in 1984. It remains the leading provider of telecoms services in the UK; its market share has fallen only 10 per cent since the market was opened.

Last year it had 83 per cent of the UK business market for telephone calls, 93 per cent of the UK residential market and a 71 per cent share of the business and residential market for international call services.

In the early years of competition, however, this was more due to BT's ownership of the "local loop", the final connection between home and office and the exchange, than to its marketing skills.

Full liberalisation in the UK came in 1991 and since then some 150 operators have been awarded licences. Many of these are cable operators with multiple licences. Only in the past couple of years have the cable companies – uniquely allowed to offer both telephony and entertainment in the UK – made any impact on BT's market share.

The cost of equipment and call charges are falling: partly because of technology, partly because of competition. The challenge for any large operator today is to protect its home market while expanding overseas to promote revenue growth.

BT is recognised as a European leader in both spheres. It has improved efficiency to the point where it is only a percentage point or so off "best of breed". It has reduced the numbers of its employees by 40 per cent over the past five years to about 130,000 today.

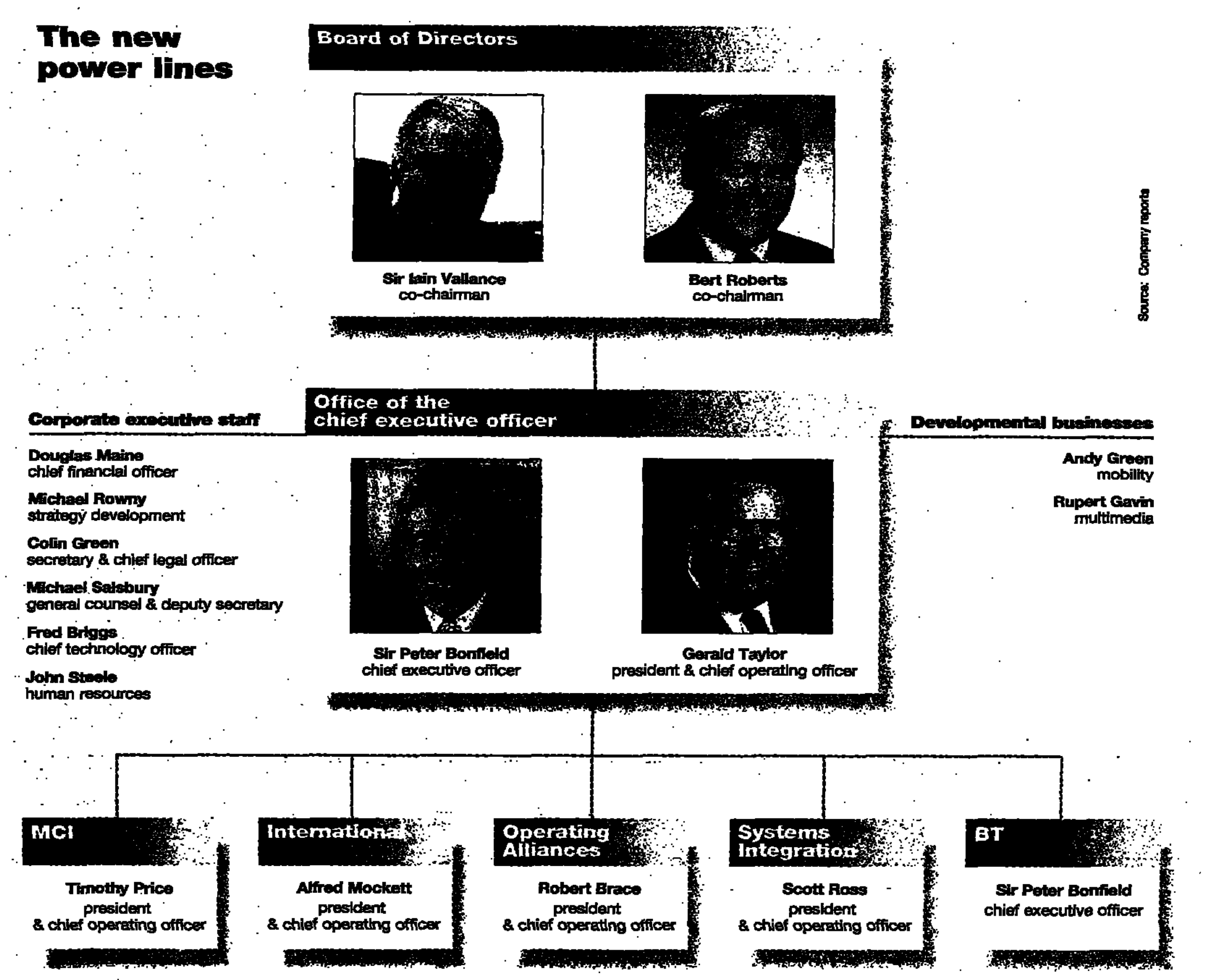
It has formed alliances in Germany, France, Italy, Spain and Norway. It has operations in more than 30 countries although it is weak in Asia-Pacific. A deal with C&W, which has a majority holding in Hong Kong Telecom, would have resolved this weakness and created an operator with unsurpassed geographic reach. The two companies could not, however, agree on major issues and the proposed deal was abandoned.

Its most important international alliance has been with MCI in which it took a 20 per cent stake two years ago. The "Concert" joint venture arising from the alliance is the first to receive full regulatory permission in the US and Europe.

BT has more than 27m lines in the UK; over 20m residential lines and 6m business lines. On average 100m local and long distance calls are made each day. BT's performance in the UK has in recent years been marked by increasingly acrimonious battles with Mr Don Cruickshank, the telecoms regulator, resulting last year in a referral to the Monopolies and Mergers Commission over number portability, the right of a subscriber to retain the same number when changing operators.

BT had the worst of that battle. This year it has taken the regulator to court over his decision to link the control of BT's prices over the next five years with a new licence condition which will give him fresh powers to root out and put an end to anticompetitive behaviour.

The company has a majority stake in the mobile phone operator Cellnet. The other shareholder, Securicor, is anxious to dispose of its holding but has been refused permission to sell it to BT. The group is also developing a number of initiatives in the multimedia field including video-on-demand, high quality Internet services, games played over the telephone network and interactive public kiosks for information and other services.



■ THE MANAGEMENT STRUCTURE – By Tony Jackson

Top jobs reveal an equal balance

Both BT and MCI insisted yesterday that the deal, while in some formal respects a takeover, is in reality a merger. "If you look at the management structure," Sir Peter Bonfield said, "these are two companies coming together as equal partners." The chart seems to bear him out.

The two joint chairmen of Concert, Sir Iain Vallance of BT and Mr Bert Roberts of MCI, are contemporaries. Sir Iain, 54, joined the old British Post Office in 1966, and has been chairman of BT since 1987. There have been rumours lately that he wants to leave the job in the next year or two.

Mr Roberts, also 54, joined MCI in 1972, the year it went public. An electrical engineer, he became chairman and chief executive in 1992 on the death of Mr Bill McGowan, co-founder of the company. He was the architect of the deal with Mr Rupert Murdoch's New Corp to offer digital satellite services in the US.

Beneath those two comes arguably the key figure in the new organisation, chief executive Sir Peter Bonfield. At 51, Sir Peter is one of the UK's most highly regarded executives.

Also an engineer, Sir Peter spent some of his early life in Dallas as an employee of Texas Instruments. From 1985 he headed ICL, the UK computer company, surviving a takeover by Fujitsu of Japan to make ICL one of Fujitsu's most successful businesses. He moved to BT as chief executive at the start of this year, following the departure of Mr Michael Hepher.

Next comes Mr Gerald Taylor as president and chief operating officer, the same post he holds at MCI. Mr Taylor joined MCI in 1969, the year after it was founded, and claims to have been among its first six employees. He has been two years in his present job and has responsibility for international operations.

At the operating level, BT's UK operations will be headed by Sir Peter. MCI in North America will be headed by Mr Tim Price, who heads MCI's specifically telecoms business.

A non-technologist, Mr Price is essentially a marketing man who joined MCI in 1984. He was responsible for the highly successful Friends & Family brand, and also for 1-800-COLLECT.

The job of finance director in the new organisation goes to the chief financial officer of MCI, Mr Doug Maine. He joined MCI as a finance man in 1978 and has been CFO since 1992. Meanwhile BT's finance director, Mr Robert Brace, goes off to head Concert's operating alliances, including those with News Corp and Microsoft.

Significantly, the top legal officers from each side – Mr Colin Green of BT and Mr Michael Salsbury of MCI – will remain in place. In both the UK and US, much of Concert's time will continue to be taken up by the regulatory authorities, and this is a job for specialists.

Elsewhere the impression of even-handedness remains. MCI will provide the heads of strategy and technology, BT the heads of human resources and multimedia. And while BT's Mr Alfred Mockett will be head of the international side, the important job of systems integration goes to Mr Scott Ross of MCI.

■ THE REGULATORY HURDLES – By Richard Waters

US rivals likely to fight hard to stop the deal

The regulatory battle lines have already been drawn. For BT and MCI, there is little doubt about the forces arrayed against them: AT&T at the front, with a group of powerful regional telephone companies (or Baby Bells) in the rear.

The result, whatever Federal and state-level regulators decide, is likely to be a prolonged US court battle.

The relationship between AT&T and MCI over the past decade and a half has been defined by a spate of legal skirmishes and regulatory tangles, as the smaller upstart has chipped away at Ma Bell's dominant position in the long-distance telephone business. The BT deal presents a perfect opportunity for AT&T to try to tie MCI, its most successful and aggressive competitor, in regulatory knots.

Also, with the US telecommunications market about to undergo great change, this is not the sort of chance that AT&T and the Baby Bells would be likely to pass up. The US's $100bn local telephone business, currently the preserve of the Bell companies, is about to be thrown open to competition, and MCI – with networks already in place in many US cities – presents an even more immediate challenge to the Bells than AT&T.

There is also considerable personal antipathy that will make this a particularly bitter fight. "Bert Roberts [MCI chairman] is a sabre-rattler," says Mr Berge Ayvazian, a consultant at the Yankee Group. "He's been the most vociferous about how the local markets need to be opened – and about how the [Bells] don't have a chance in long distance."

Competition in the $75bn long-distance business, meanwhile, has become increasingly ferocious. MCI has just over 20 per cent of the market, compared with AT&T's 50-55 per cent, and is growing more than twice as fast. AT&T's share price has tumbled as investors have begun to doubt Ma Bell's ability to fend off more nimble competitors.

AT&T has not wasted any time. Within hours of the BT/MCI news, AT&T indicated where its campaign would be directed: whether the UK had carried out a "complete and unqualified opening" of its own market.

The US's Federal Communications Commission, which must approve investments of more than 25 per cent in US carriers, made the question of reciprocal access to foreign markets the focal point of regulatory consideration a year ago. The FCC said it would be the first consideration in any review.

The UK telecommunications market is generally agreed to be more open than any other in Europe – including France and Germany, whose telephone companies were allowed to take 10 per cent stakes in Sprint, the third-biggest US long-distance company, this year. AT&T, for one, is already a full competitor to BT in the domestic market.

The UK also said this summer it would allow companies other than BT and Cable & Wireless to own interests in the cables that carry international calls.

According to AT&T, however, this does not add up to a fully open market. There are still many practical obstacles to competing with BT in the UK, it said; for example, UK callers have greater difficulty in connecting with their carrier of choice than US callers do.

The deal also needs the approval of US anti-trust regulators. The combined company's large share of transatlantic telephone traffic could be an issue, but the prospect of MCI becoming a stronger competitor in the US is likely to increase its chances of approval.

A year ago, the FCC said that it, too, would look to "the general significance of the proposed entry to the promotion of competition" in the US when considering an international investment. With the local telephone business about to be opened to competition, timing would seem to be on BT's side.

FCC decisions, however, are open to challenge in the courts – and one agency decision has recently been successfully challenged by the Baby Bells.

A hectic year for telecoms deals

- Nov 96: British Telecommunications and MCI announce merger plans.
- Oct 96: Cable & Wireless merges its Mercury telecoms business with three North American-controlled cable television groups - Bell Cablemedia, Nynex CableComms and Videotron.
- Oct 96: Veba and RWE, two of Germany's largest conglomerates, announce plans for a DM8bn (£3.4bn) telecoms alliance to challenge Deutsche Telekom.
- Sep 96: BT invests £1.1bn in Cegetel, the telecoms subsidiary of Compagnie Générale des Eaux.
- Aug 96: WorldCom, the fourth-largest US carrier, announces plans to buy MFS Communication, a business telecoms group, for $14bn.
- Jul 96: European Commission approves France Télécom and Deutsche Telekom's Atlas "supercarrier" alliance and their global alliance with Sprint of the US, called Global One.
- Jun 96: Koninklijke PTT Nederland, the privatised Dutch telecoms company, and Telia of Sweden chosen to take a strategic 35 per cent stake in Telecom Eireann, Ireland's state-owned carrier.
- May 96: BT and C&W abandon merger talks.
- Apr 96: Bell Atlantic and Nynex of the US announce $51bn merger.
- Apr 96: SBC Communications, formerly known as Southwestern Bell, agrees to pay $17bn for Pacific Telesis.
- Mar 96: BT and C&W reopen talks on merger.
- Feb 96: US West to pay $1bn for Continental Cablevision, a US cable TV group.

■ DEAL TERMS
By Tony Jackson

Finance details set out special dividend

Under the terms of the proposed merger, MCI shareholders will receive the equivalent of 5.4 BT shares plus $6 for every MCI share they hold. The share payment will be in the form of American Depositary Shares (ADSs) in Concert.

These will replace the existing BT ADSs, which represent 10 BT shares each. The Concert shares will be listed in London and Japan, and the ADSs in US.

The cash element will total up to $3.8bn (£2.3bn), with MCI shareholders owning around 34 per cent of the group.

BT will pay a special dividend of 35p net to its shareholders, costing £2.2bn, payable next September along with the final dividend for the year ending March 1997. This is not conditional on the deal going through.

BT said it did not expect the payment to be affected by recently proposed UK tax changes halting tax credits on special dividends.

It also proposes buying back up to 10 per cent of its enlarged share capital following the deal.

BT said yesterday its total dividend for the current year (excluding the special payment) would be 19.85p net, an increase of 6.1 per cent. This would consist of an interim payment of 7.9p followed by a final 11.95p.

It said dividend payments should continue to grow thereafter: however, it warned they would do so less quickly than earnings, so that dividend cover would increase over time.

Future dividends are to be adjusted to reflect the special dividend, beginning with next year's interim payment. If applied to the 1996 total payment of 18.7p, this would have reduced it to 15.8p.

BT also warned of modest earnings dilution for its shareholders in the first year, of the order of 5 per cent.

MCI shareholders will not receive dividends in respect of BT's current year, or the special dividend, even if the deal is concluded before the year end.

However, they will receive BT's full dividend for the following year, provided the merger closes by the year-end of March 1998. The merger is expected to be concluded in autumn 1997.

BT said the combined group would have a gearing ratio (net debt to equity) of around 65 per cent after the merger and special dividend. This compares with a pro forma figure of 54 per cent.

Gearing would rise as a result of expansion in Europe and the US local market, but would begin to fall after 1998. Combined cash flow from operations was forecast at £7.5bn.

Cost savings are forecast at a cumulative £1.5bn pre-tax over the first five years. By the fifth year savings are forecast at £500m annually.

Savings are to be achieved through:

- common software development;
- purchasing and operating efficiencies;
- increased revenues;
- lower depreciation charges, resulting from a cumulative $1.5bn reduction in capital expenditure over the five years.

MARKETS: This Week

EMERGING MARKETS By Edward Luce

Philippines pauses for breath

After a spectacular first half, with the composite index posting 27 per cent growth in dollar terms, the Philippine stock exchange has undergone a mood swing. In spite of one or two gains on the back of impressive third-quarter corporate results, the PSE has dropped 13 per cent in dollar terms in the past month.

The correction, which has pushed the composite index back under 3,000 points to levels first reached late in 1993, has been driven mainly by bearish foreign sentiment. Overseas funds' involvement has dropped from 70 per cent of turnover in the first half of the year to about 50 per cent now while daily turnover has halved to around 2bn pesos (US$85m).

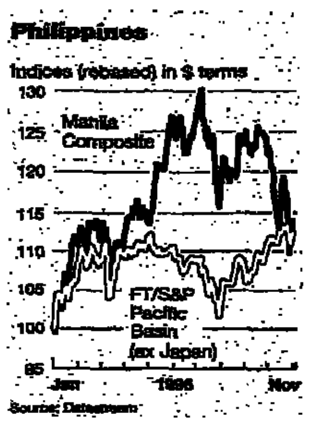
With third-quarter corporate results averaging almost 30 per cent growth and average broker forecasts putting 1997 earnings growth at 25 per cent, few believe the downswing will persist. Many, including several foreign brokers, say the south-east Asian correction has all but played itself out. When tomorrow's US election is out of the way, they say, funds will flow towards emerging markets again.

"The Philippine economy's fundamentals have not changed one jot over the last six months, yet we have gone from bull to bear in very short order," said Mr Alex Pomento, chief researcher at ING Barings in Manila. "The reasons are, therefore, external to the Philippines. Once funds start flowing back, the PSE will boom again."

After the US election, the likelihood of a rise in US interest rates will increase. Contrary to conventional wisdom, many believe this will trigger a stronger flow of investment in emerging market equities. Although the Philippine peso is informally pegged to the US dollar, analysts say the PSE and other Asian markets are now cheap compared with US and European stocks.

Also, there are signs that the regional slowdown in electronics exports will be reversed as global semiconductor prices pick up again. This should boost foreign confidence in markets such as the Philippines, where electronics accounts for 40 per cent of total exports.

However, macroeconomics alone do not explain the full story of the PSE's recent decline. Falling exports apart, local and foreign fund managers have reappraised their view of specific Philippine stocks over the past few weeks, with property companies suffering most. Accounting for 24 per cent of the composite index but more than a third of turnover, property shares have driven the Philippine market in the past three years.



But fears that the Philippine property sector has hit a peak – with the latest Manila real estate deal hitting 460,000 pesos/sq m – have led to steep falls in most leading property stocks in the past month. Worries about the sustainability of the country's high-end property boom are unlikely to abate when funds start flowing back to Manila, brokers say.

"Everybody is quite understandably worried about property," said Mr William Daniel, head of BZW's Manila office. "There is a case now for being much more selective about which Philippine stocks to buy and there is also a case to be especially selective with property stocks."

Foreign investors would do well to steer clear of high-end property stocks. Companies such as C&P Homes or Filinvest Land, which specialise in low to middle-income housing, are considered safer bets. "There's very little danger of a burst bubble in the middle-income sector," said one property analyst. "The real worry is over the health of the luxury real estate sector."

The case for a more differentiated view of the Philippine market should not be confined, however, to property stocks. Judging by the performance of local mutual funds, the selective approach is increasingly rewarding. Philippine unit trusts have had mixed results in 1996 with some posting impressive growth and others foundering.

W.I. Carr, the stockbroker, says the PSE looks radically different once the top seven blue chips, such as Ayala Land and Metrobank, are stripped out. The PSE as a whole is trading at a price/earnings ratio of 20 compared with 16 for Indonesia and Thailand. Omit the top seven companies and the PSE also drops to a p/e of 16. On a selective view, then, the PSE can look cheap.

"The real value in the Philippines lies in what we call the 'emerging blue chips' or the second-liners," said Mr Chris Hunt, chief researcher at W.I. Carr. "If you ignore the blue chips, some of which are trading at ridiculously high premiums to the market, there are many second-line companies with very strong earnings growth which are still trading at a discount."

Brokers say the stars of the future will be in manufacturing and the industrial sector. Computer parts assemblers, such as Ionics, and electronics producers, such as the Solid group, could gradually emerge as the new blue chips. For the time being, however, most eyes will be on the US elections.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	25/10/96	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (447)	156.68	-1.59	-1.00	-4.30	-2.67	+9.12	+6.18
Latin America							
Argentina (22)	96.06	+1.04	+1.09	-0.77	-0.80	+3.29	+3.54
Brazil (24)	248.09	-1.60	-0.64	+4.45	+1.83	+62.00	+33.32
Chile (16)	184.30	-4.72	-2.50	-2.67	-1.43	-11.36	-5.81
Colombia (13)	179.65	+2.55	+1.44	+6.54	+3.78	+15.40	+9.38
Mexico (27)	78.30	-2.23	-2.76	-4.69	-5.65	+4.70	+6.39
Peru (12)	1099.27	-39.27	-3.45	-68.21	-5.84	+30.32	+2.84
Venezuela (6)	58.83	-3.27	-5.27	+0.97	+1.67	+31.32	+113.87
Latin America (119)	139.85	-1.97	-1.39	-1.86	-1.31	+16.71	+13.57
Europe							
Czech Rep.(14)	98.34	-3.05	-3.00	-9.13	-8.50	+22.04	+28.88
Greece (20)	118.15	+1.93	+1.66	+0.03	+0.03	+20.18	+20.60
Poland (25)	326.93	+0.71	+0.22	-38.05	-10.37	+127.78	+63.52
Portugal (18)	137.68	+0.55	+0.40	+1.13	+0.63	+21.23	+18.23
South Africa (30)	136.16	-1.32	-0.96	-4.10	-2.92	-17.22	-11.23
Turkey (27)	118.62	-0.96	-0.80	+10.88	+10.10	+35.82	+43.26
Europe (134)	119.97	-0.80	-0.66	-2.71	-2.21	-1.56	-1.28
Asia							
China (26)	43.58	-1.56	-3.45	-0.96	-2.15	+3.26	+8.08
Indonesia (30)	141.18	+0.76	+0.54	-3.01	-2.09	+2.54	+1.83
Korea (23)	94.83	-3.15	-3.21	-7.33	-7.18	-42.08	-30.74
Malaysia (24)	265.35	-2.46	-0.92	+6.52	+2.52	+37.98	+16.71
Pakistan (13)	68.64	+1.77	+2.65	-2.28	-3.22	-4.96	-6.73
Philippines (18)	291.64	-0.81	-0.28	-35.56	-10.87	+32.47	+12.53
Taiwan (31)	174.14	+0.59	+0.34	-5.29	-2.95	+43.32	+33.11
Thailand (28)	173.40	-4.25	-2.39	-35.62	-17.04	-78.49	-31.16
Asia (193)	210.09	-1.70	-0.80	-9.02	-4.12	+7.05	+3.47

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

INTERNATIONAL BONDS By Richard Lapper

Germany under pressure to redenominate

Redenomination may be an ugly word but it is likely to be on the lips of bond traders and investors more frequently over the coming weeks. Founder members of European monetary union (Emu) are set to issue new debt in the euro from 1999 but over the past few months it has become more likely that many governments will also choose to redenominate their existing debt into the new currency.

France and Belgium have already announced their intention to redenominate on January 1 1999 and over the past few weeks the German government has come under increasing pressure from local bankers and trade organisations to follow suit.

In German financial circles there are fears that if it fails to make the change, Frankfurt could lose out to Paris in the battle for financial market business in the new single currency.

As a recent report by Lehman Brothers, the US investment bank, put it, the Germans are worried "that as more trading takes place in euro-denominated debt, German investors will be left with a supply of increasingly illiquid and therefore poorly performing D-mark denominated debt."

For fixed income investors, however, redenomination has a number of other implications. If Germany redenominates, it would reaffirm French and German determination to drive through the Emu project.

"Converting all existing debt would cause a landmark shift in the momentum for Emu," said Lehman. In turn, this could give new impetus to convergence trades which have stumbled in recent weeks.

At the same time, however, German redenomination could have other less obvious consequences. Lehman argues that it might trigger defensive action by investors who remain sceptical about the prospects of Emu and fearful that the union could break up between 1999 and 2002 – the date at which national currencies are scheduled to disappear altogether.

"A number of real money and hedge fund managers in English-speaking countries believe that Emu is fundamentally unworkable. In addition, many central European money managers remain attached to the D-Mark and do not believe that Germany will ultimately surrender monetary sovereignty to a currency likely to be less successfully managed and weaker than the D-Mark," said the report.

These Emu sceptics could switch into D-Mark denominated corporate debt and pfandbriefe (German bonds backed by public sector loans), which are governed by bilateral private contractual agreements and will be unaffected by a government decision to redenominate.

In turn, however, these flows could make these D-Mark denominated eurobonds and pfandbriefe attractive even to investors who are more bullish about the prospects for Emu. Lehman says these bonds can be viewed as a hedge against the risk that Emu will unravel and recommends international investors to switch from bunds into liquid high quality D-Mark denominated eurobonds.

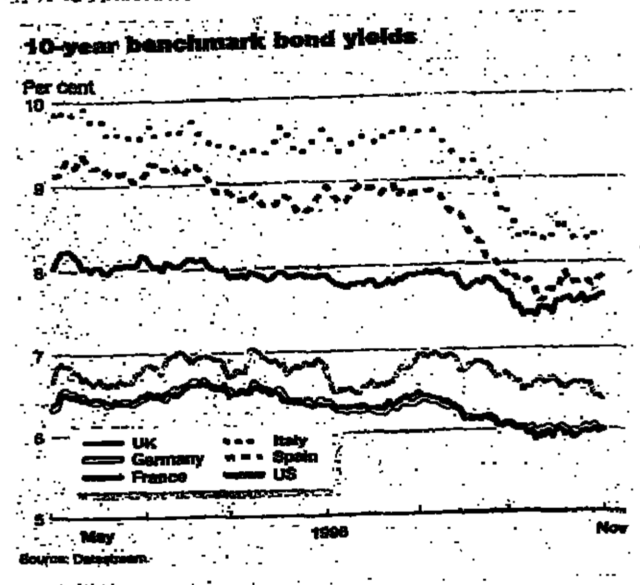
The report predicted that the yield spread over government paper of the most liquid high quality D-Mark paper maturing between 1999 and 2002 could fall at least 10 basis points. "These bonds are likely to begin to outperform as soon as a [German] announcement is made," the report argued.

But some investors are not persuaded by this thinking, arguing that if Emu breaks up between 1999 and 2002, the risk of holding D-Mark denominated eurobonds and pfandbriefe could be just as great as that of holding euro-denominated German government debt.

Mr John Hall, chief economist of Omega Advisers, the New York-based hedge fund, argues that the legal technicalities of the relationship between the old national currencies and the new euro during the transition period are "by no means clear cut".

He points out that after the start of Emu, new European currencies will become denominations of the euro and says if Emu breaks up "the relationship between the new national currencies [which would succeed the euro] and these denominations of the euro would not be clearly defined by eurobond documentation".

At the same time Mr Hall suggests that the German government would be likely to ensure that its debt paper would not be devalued, given the fact that much of it is held by German investors.



INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	4.75	7.50	6.00*
Overnight	5.50	0.44	3.00	3.25	7.80	6.00
Three month	5.15	0.35	3.09	3.35	7.62	5.99
One year	5.42	0.48	3.26	3.25	7.09	6.48
Five year	6.09	1.50	4.80	4.98	7.36	7.30
Ten year	6.38	2.54	6.03	5.99	8.14	7.71

(†) France-Repo rate. (*) UK-Base rate. Source: Reuters.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Federative Rep of Brazil‡	750	Nov 2001	8.875	99.88R	8.911	285(6¼%-01)	JP Morgan/SBC
Japan Highway Public Corp	300	Nov 2006	6.875	99.66R	6.808	28(6½%-06)	Nomura Intl
Hitachi Credit Corp	200	Nov 1998	6.625	99.713R	6.694	34(6¼%-01)	JP Morgan
BES Overseas Ltd‡	250	perpetual	(a)	100.00R	-	-	Merrill Lynch/BES/B. Essi
SAFA(k)	90	Nov 1999	5.51#	100.00	5.51	-	IBJ Intl/New Japan Sec.
Banco Bansud(s)	100	Nov 1998	9.25	99.93R	-	350(5⅞%-98)	Bear Stearns Intl.
BHW(B)	200	Nov 2000	6.25	99.91R	6.276	+19(l)	ABN Amro/Bear Stearns
BBV International Finance‡	200	Nov 2006	(l)	100.37R	-	-	Deutsche Morgan G'fell
Banco Excel Economico(s)	150	Nov 2004	10.75	97.52R	11.24	496(l)	Indosuez Capital
Banque de la Mediterranee	100	Nov 1999	8.63	99.75R	8.723	285(6%-99)	Indosuez/Merrill Lynch
Unibanco(Cayman)	100	Nov 1997	7.13	100.00R	7.125	140(1yrlibr)	ING Barings
Banco Dibens(v)	50	Nov 2004	(v1)	99.93R	11.15	-	WestMerchant
R.O.S.E. Funding(l)‡Cls A1a	750	Nov 2001	(D1)	100.00R	-	-	NatWest Markets
R.O.S.E. Funding‡ Cls A2a	750	Nov 2001	(D2)	100.00R	-	-	NatWest Markets
R.O.S.E. Funding‡ Cls A3a	500	Nov 2001	(D3)	100.00R	-	-	NatWest Markets
Dormitory Authority NY(E)	774	(E)	(E)	100.00	-	-	Lehman Brothers
Norwest Corp‡	300	Nov 2001	(F)	99.91R	-	-	Morgan Stanley Intl
GECC	250	Nov 2001	6.25	99.77R	6.305	8(6¼%-01)	SBC Warburg
Bank of Melbourne‡	150	Nov 1997	(K)	100.00	-	-	Nomura International
D-MARKS							
Hypothekenbank in Essen(b)	2bn	Feb 2004	5.75	99.78	-	-	(b1)
DePfa(s)	750	Jul 2012	7.65	100.00	7.65	-	Commerzbank
Deutsche Ausgleichsbank	500	Nov 2006	6.125	99.50R	6.194	-	Commerzbank
DePfa Bank(c)	300	Nov 2001	4.00	99.85	4.034	-	JP Morgan
UBS(d)(s)	100	Nov 1998	2.50	89.95R	4.81	9(bbl119)	UBS
SGZ Bank‡	500	Nov 2003	(x)	99.59	-	-	DG Bank/Lehman Bros.
BGB Finance(Ireland)(y)§	300	Dec 2001	(y1)	100.00	-	-	Bakgelect Bdn/Goldman
L-Bank(s)★	250	May 2001	4.75	99.92R	-	-	Nikko Epe/Tokai Bnk
Sigma Ltd(Cayman)(s)	75	Jun 1999	8.00	99.90R	9.09	515(5¾%-99)	Goldman Sachs
Hellenic Republic	1bn	Nov 2008	8.75	89.70R	8.792	80(4/08bund)	DG Bank/Merrill Lynch
DePfa	1bn	Nov 2001	4.75	98.67R	5.058	5(8¼%-01)	Cmrzbnk/Merrill/Morgan
Deutsche Hypothekenbank	1bn	Nov 1999	4.00	99.53	4.171	-	ABN Am/Drsd/Hlba/UBS
Allgemeine Hypthkbank(s)‡	500	Nov 2006	(G)	100.19	-	-	Deutsche Morgan G'fell
Colombia‡	275	Nov 2001	(H)	99.92R	-	-	Deutsche Morgan G'fell
YEN							
Export Fin. & Insurance(l)★	12bn	Nov 1999	5.49#	100.00	5.40	-	Taiheiyo Erp/Yamaichi
Kingdom of Sweden(w)★	20bn	Feb 2000	5.80#	100.00	5.80	-	Wako Intl(Europe)
SWISS FRANCS							
Sigma Finance	125	Nov 2001	3.25	102.15	2.78	-	SBC Warburg
Merck(z)	100	Nov 2002	3.50	101.35	3.25	-	UBS
STERLING							
Nippon Telegrph & Telphne	250	Dec 2003	7.375	99.31R	7.505	16(8%-03)	BZW
R.O.S.E. Funding(l)‡Cls A1b	600	Nov 2001	(D4)	100.00R	-	-	NatWest Markets
R.O.S.E. Funding‡ Cls A2b	600	Nov 2001	(D5)	100.00R	-	-	NatWest Markets
R.O.S.E. Funding‡ Cls A3b	600	Nov 2001	(D6)	100.00R	-	-	NatWest Markets
Abbey Natl Treasury Srv.(l)	150	Mar 2001	7.13	99.07R	-	17(8%-00)	Deutsche Morgan G'fell
FRENCH FRANCS							
Kingdom of Spain(n)	3bn	Jul 2006	6.625	103.70R	-	(n1)	Societe Generale
Landesgirokasse	2bn	Dec 2006	6.08	99.38R	6.085	+12(l)	Soc'Gen/UBS
EIB(B)	1bn	Nov 2006	(B1)	99.96R	5.305	-	CDC/Paribas
Bayer Hypothekenbank	1.5bn	Dec 2006	6.13	99.89R	6.290	+22(l)	BZW/CDC
Nederlandse Waterschapsbank	1bn	Nov 2006	6.00	99.20R	6.110	+15(l)	ABN Amro Hoare Govett
LUXEMBOURG FRANCS							
Banque Indosuez	2bn	Dec 2003	5.875	102.55	5.43	-	BGL/BCEE
Cregem International Bank(s)	2bn	Apr 2004	5.63	101.95	5.30	-	BIL
Daimler Benz, North America	2bn	Dec 2002	5.50	102.55	5.00	-	BIL/BGL
ITALIAN LIRE							
World Bank(q)	500bn	Nov 1998	zero	23.31	-	-	Credito Italiano
Credit Local de France(f)	200bn	Dec 2006	8.125	101.75	7.866	-	Crdto. It/Mnt d. Paschi
IMI Bank Intl. Cayman	300bn	Dec 2001	7.50	101.404	7.156	-	IMI Luxembourg
EIB(o)	250bn	Nov 2006	7.875	100.57	-	-	BCI/Carpl/S.Pio/JP Mrg
DSL Bank(g)	100bn	Nov 2006	8.00	100.90	7.87	-	San Paolo
Fiodomestic Spa★‡	82bn	Dec 2001	(t)	100.00	-	-	IMI Sigeco.
BHWB	200bn	Nov 2001	(C)	99.70R	7.838	-	BCI/JP Morgan
BGB Finance Ireland	250bn	Nov 1998	zero	88.73	8.164	-	Cariplo/IMI Luxembourg
BayerVB	200bn	Dec 2006	8.15	99.90R	8.165	-	Credito Italiano
Deutsche Finance NBvind(J)	1tn	Oct 2006	zero	undisc	-	-	Deutsche Morgan G'fell
AUSTRALIAN DOLLARS							
New South Wales Tcry★#	200	Nov 1999	6.00	99.93	6.027	-	Nomura International
Toyota Finance Australia	150	Dec 2001	7.00	101.27	6.693	-	Hambros
SBAB★	110	Nov 2000	6.50#	100.00	6.50	-	Kokusai/Erp/Toyo Trust
ECU							
Kredietbank Intl Finance(h)	55	Dec 2004	5.00	101.70	4.740	-	Kredietbank
PESETAS							
Nordic Investment Bank(g)	14bn	Dec 2006	7.70	101.45	7.489	-	Banco Bilbao Vizcaya
NEW ZEALAND DOLLARS							
Council of Europe★#	100	Nov 1998	7.00	100.00	7.000	-	Tky Mitsb/Tky Scr Erp
DANISH KRONER							
World Bank	500	Nov 2004	4.00	undisc	-	-	HSBC Markets
Commerzbank	400	Dec 2008	(m)	102.00	7.09	-	BBL/BIL
DSL Bank(A)	400	Dec 2004	5.13	101.90	6.25	-	Kredietbank
CANADIAN DOLLARS							
EIB(l)	100	Dec 2002	5.75	99.87R	-	-	Toronto Dominion Bank
CYPRIOT POUNDS							
Bank of Cyprus(l)§	40	Oct 2003	6.75	100.00	-	-	Salomon Brothers Intl

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ¢With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) 3-mth Libor +195bp. b) Added to DM500m. Plus 268 days accrued interest. Offentliche Pfandbrief. b1) ABN Amro/BHW/Comzbnk/Dresdnr/TrinkHaus. c) Coupon 4% until 15/11/98, then 6-mth Libor+50bp with a 6½% cap. Pfandbrief. d) Fungible with DM150m launched on 9/10/96. e) Added to L1.5trillion. f) Added to L300bn. g) Pays 15.5% -1yr Libor in yrs 6-10. h) 5% coupon for yrs 1-4, 7.1125% thereafter. l) Over interpolated yield. j) Conversion price: C£3.97. Callable from Oct 99 subject to 130% hurdle. Including C£5m Greenshoe. k) South Australian Government Financing Authority. Launched off SAFA's debt instrument programme. l) Long 1st coupon. m) 6½% yrs 1-5; 8¼% yrs 6-8; 9¼% yrs 9-10. n) Fungible with outstanding FFr6bn issue. n1) 13(l) or 10(OSPAT). o) Fungible with L750bn. Plus 8 days accrued interest. q) Added to L300bn. r) 3-mth Ribor +40bp. s) Short 1st coupon. t) 6-mth Libor +31¼bp. u) call and put option after 3+5yrs. v) Call at par after 3+5yrs. v1) 11% for 1st 3yrs, 11¼% for yrs 4-6, 11½% for yrs 6-8. w) Redemption in Australian dollars. x) 3-mth Libor +⅛bp. y) Conversion price: DM150.20.z) Add on to SFR200m deal launched 9/10. A) Coupon 5⅛% for 1st 4yrs; 8⅞% for last 4yrs. B) Call at par in year 5. B1) 5.3% for yrs 1-5; 7⅛% thereafter. C) 7.625% for 1st yr; then 7⅞% if not called at par. D) 11-tranche issue worth apprx $6bn. Short 1st coupons. D1) 3-mthUS$Libor+8bp. D2) 3-mth US$ Libor+18bp. D3) 3-mth US$Libor +22bp. D4) 3-mth £Libor+8bp. D5) 3-mth £Libor+18bp. D6) 3-mth£Libor+22bp. E) Multi tranche bond totalling $773m. All bonds are priced at PAR. F) 3-mth Libor+5bp. G) 3-mth Libor zero. H) 3-mth Libor +140bp. I) Fungible with ST£250m. Plus 249 days accrued interest. J) Added to L3trillion. K) 3-mth Libor Flat. Note: Yields are calculated on ISMA basis.

CONTRACTS & TENDERS

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Nov 1		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.4655	+0.1269	548 - 766	17.5801	17.3634	17.422	3.0	17.3655	2.3	-	-	104.8
Belgium	(BFr)	51.1571	+0.3873	266 - 875	51.4140	50.8330	51.0321	2.9	50.7671	3.0	49.5721	3.1	105.9
Denmark	(DKr)	9.5392	+0.0755	337 - 446	9.5866	9.4804	9.5192	2.5	9.4787	2.5	9.2997	2.5	107.0
Finland	(FM)	7.4401	+0.0609	339 - 462	7.4720	7.3960	-	-	-	-	-	-	84.8
France	(FFr)	8.3882	+0.071	844 - 939	8.4295	8.3323	8.3702	2.7	8.3314	2.8	8.1529	2.8	108.8
Germany	(DM)	2.4833	+0.0192	818 - 848	2.4962	2.4681	2.4771	3.0	2.4644	3.0	2.408	3.0	107.9
Greece	(Dr)	390.359	+3.288	170 - 548	393.730	387.447	-	-	-	-	-	-	67.8
Ireland	(I£)	0.9998	-0.0015	979 - 997	1.0068	0.9979	0.9985	0.4	0.9975	0.5	0.9909	0.8	100.5
Italy	(L)	2481.94	+22.72	003 - 386	2495.04	2471.98	2495.74	-1.8	2503.24	-1.8	2507.74	-0.6	78.9
Luxembourg	(LFr)	51.1571	+0.3873	266 - 875	51.4140	50.8330	51.0321	2.9	50.7671	3.0	49.5721	3.1	105.9
Netherlands	(Fl)	2.7877	+0.0261	863 - 890	2.7992	2.7678	2.7805	3.1	2.7655	3.2	2.7006	3.1	106.1
Norway	(NKr)	10.4851	+0.0737	506 - 596	10.5349	10.4021	10.4426	1.4	10.4226	1.2	10.3176	1.9	99.4
Portugal	(Es)	251.037	+1.941	804 - 269	252.524	249.734	251.232	-0.9	251.602	-0.9	-	-	95.7
Spain	(Pta)	209.025	+1.445	894 - 156	210.129	207.928	209.19	-0.9	209.42	-0.8	209.42	-0.2	80.0
Sweden	(SKr)	10.7829	+0.0932	721 - 936	10.8185	10.7065	10.7817	0.1	10.779	0.1	10.7667	0.2	90.1
Switzerland	(SFr)	2.0822	+0.0325	808 - 835	2.0914	2.0636	2.0746	4.4	2.0595	4.4	1.9926	4.3	108.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	90.9
Ecu	-	1.2942	+0.0096	930 - 953	1.2982	1.2867	1.2923	1.8	1.2878	2.0	1.2664	2.2	-
SDR†	-	1.125823	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6368	+0.0086	363 - 372	1.6432	1.6282	-	-	-	-	-	-	-
Brazil	(R$)	1.6828	+0.0096	820 - 835	1.6888	1.6715	-	-	-	-	-	-	-
Canada	(C$)	2.1865	+0.0027	855 - 875	2.1977	2.1761	2.1814	2.8	2.1705	2.9	2.1115	3.4	86.4
Mexico	(New Peso)	13.0431	-0.0818	313 - 549	13.0987	12.8853	-	-	-	-	-	-	-
USA	($)	1.6376	+0.0092	371 - 380	1.6435	1.6264	1.6366	0.7	1.6347	0.7	1.6236	0.9	97.0
Pacific/Middle East/Africa													
Australia	(A$)	2.0762	+0.0228	749 - 774	2.0805	2.0551	2.0775	-0.8	2.0782	-0.4	2.0778	-0.1	93.5
Hong Kong	(HK$)	12.6615	+0.0702	572 - 658	12.7072	12.5758	12.6542	0.7	12.6403	0.7	12.5758	0.7	-
India	(Rs)	58.3788	+0.4077	352 - 223	58.7223	58.0352	-	-	-	-	-	-	-
Israel	(Shk)	5.3301	-0.0019	237 - 364	5.3774	5.3237	-	-	-	-	-	-	-
Japan	(Y)	186.009	+0.795	893 - 126	186.890	184.900	185.119	5.7	183.259	5.9	175.229	5.8	127.9
Malaysia	(M$)	4.1396	+0.0254	378 - 417	4.1567	4.1104	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3112	+0.0091	094 - 129	2.3184	2.3004	2.3179	-3.5	2.3274	-2.8	2.3481	-1.6	112.1
Philippines	(Peso)	43.0431	+0.2487	739 - 122	43.1122	42.9739	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.1417	+0.0344	383 - 450	6.1636	6.1001	-	-	-	-	-	-	-
Singapore	(S$)	2.3065	+0.0121	050 - 079	2.3154	2.2916	-	-	-	-	-	-	-
South Africa	(R)	7.6760	+0.0339	698 - 822	7.7064	7.5902	-	-	-	-	-	-	-
South Korea	(Won)	1350.49	+3.72	979 - 119	1355.07	1341.65	-	-	-	-	-	-	-
Taiwan	(T$)	45.0408	+0.1946	875 - 941	45.2110	44.8236	-	-	-	-	-	-	-
Thailand	(Bt)	41.7805	+0.2481	608 - 001	41.9190	41.5110	-	-	-	-	-	-	-

† Rates for Oct 31. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 1		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.6656	+0.018	617 - 695	10.7166	10.6580	10.6456	2.2	10.6056	2.3	10.4106	2.4	104.7
Belgium	(BFr)	31.2400	+0.05	300 - 500	31.3750	31.1780	31.18	2.3	31.0525	2.4	30.5125	2.3	105.7
Denmark	(DKr)	5.8253	+0.0137	235 - 270	5.8496	5.8239	5.8164	1.8	5.798	1.9	5.7163	1.9	106.6
Finland	(FM)	4.5434	+0.0718	409 - 459	4.5602	4.5307	4.5346	2.3	4.5159	2.4	4.4334	2.4	84.5
France	(FFr)	5.1230	+0.0148	215 - 245	5.1420	5.1215	5.1147	2.0	5.0967	2.1	5.021	2.0	108.6
Germany	(DM)	1.5165	+0.0033	160 - 170	1.5234	1.5153	1.5136	2.3	1.5076	2.3	1.4829	2.2	107.5
Greece	(Dr)	238.390	+0.58	330 - 430	240.050	238.160	239.935	-7.8	242.505	-6.9	255.53	-6.4	67.3
Ireland	(I£)	1.6395	+0.0115	385 - 405	1.6405	1.6280	1.639	0.3	1.6387	0.2	1.6359	0.2	-
Italy	(L)	1521.75	+8.4	100 - 250	1525.10	1516.00	1524.92	-2.5	1531.35	-2.5	1544.4	-1.5	76.7
Luxembourg	(LFr)	31.2400	+0.05	300 - 500	31.3750	31.1780	31.18	2.3	31.0525	2.4	30.5125	2.3	105.7
Netherlands	(Fl)	1.7024	+0.0065	020 - 027	1.7091	1.6992	1.6986	2.7	1.6906	2.8	1.655	2.8	105.9
Norway	(NKr)	6.3846	+0.0094	836 - 856	6.4370	6.3575	6.3808	0.7	6.3752	0.6	6.3496	0.5	98.8
Portugal	(Es)	153.300	+0.33	200 - 400	153.700	153.200	153.505	-1.6	153.8	-1.3	154.575	-0.8	96.0
Spain	(Pta)	127.645	+0.17	600 - 690	128.190	127.600	127.825	-1.7	128.085	-1.4	128.75	-0.9	79.8
Sweden	(SKr)	6.5848	+0.0203	800 - 895	6.6032	6.5770	6.582	0.5	6.5722	0.8	6.5248	0.9	89.8
Switzerland	(SFr)	1.2715	+0.0128	710 - 720	1.2778	1.2695	1.2677	3.6	1.2599	3.7	1.227	3.5	108.7
UK	(£)	1.6376	+0.0092	371 - 380	1.6435	1.6264	1.6366	0.7	1.6347	0.7	1.6236	0.9	89.9
Ecu	-	1.2654	-0.0024	646 - 661	1.2685	1.2607	1.2668	-1.3	1.2699	-1.4	1.2865	-1.7	-
SDR†	-	0.691453	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9995	-0.0004	995 - 995	0.9995	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	1.0276	+0.0002	274 - 278	1.0279	1.0274	-	-	-	-	-	-	-
Canada	(C$)	1.3353	-0.0058	350 - 355	1.3385	1.3345	1.3329	2.1	1.3279	2.2	1.3004	2.6	85.4
Mexico	(New Peso)	7.9650	-0.095	600 - 700	7.9700	7.9600	8.063	-17.8	8.3495	-19.3	9.21	-15.6	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.0
Pacific/Middle East/Africa													
Australia	(A$)	1.2678	+0.0068	674 - 682	1.2682	1.2659	1.2693	-1.4	1.2712	-1.1	1.2767	-0.7	95.7
Hong Kong	(HK$)	7.7320	-0.0003	315 - 325	7.7325	7.7310	7.7319	0.0	7.7325	0.0	7.7435	-0.1	-
India	(Rs)	35.6500	+0.05	500 - 500	35.8500	35.4500	35.865	-7.2	36.325	-7.6	-	-	-
Israel	(Shk)	3.2549	-0.0195	519 - 579	3.2809	3.2519	-	-	-	-	-	-	-
Japan	(Y)	113.590	-0.15	550 - 630	114.180	113.390	113.115	5.0	112.11	5.2	107.91	5.0	128.1
Malaysia	(M$)	2.5280	+0.0013	275 - 285	2.5298	2.5232	2.5309	-1.4	2.5362	-1.3	2.5575	-1.2	-
New Zealand	(NZ$)	1.4113	-0.0024	106 - 120	1.4144	1.4106	1.4168	-4.7	1.4211	-2.8	1.4526	-2.9	-
Philippines	(Peso)	26.2850	+0.005	500 - 200	26.3200	26.2500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	495 - 515	3.7515	3.7495	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.4085	-0.0005	080 - 090	1.4095	1.4080	1.4063	1.8	1.4018	1.9	1.3805	2.0	-
South Africa	(R)	4.6875	-0.0055	850 - 900	4.7175	4.6580	4.7262	-10.4	4.8032	-9.9	5.118	-9.2	-
South Korea	(Won)	824.700	-2.35	500 - 900	827.800	823.000	-	-	-	-	-	-	-
Taiwan	(T$)	27.5050	-0.035	800 - 300	27.5430	27.4800	27.5051	0.0	27.5053	0.0	-	-	-
Thailand	(Bt)	25.5140	+0.009	090 - 190	25.5270	25.5050	25.604	-4.2	25.7715	-4.0	26.409	-3.5	-

† SDR rate per $ for Oct 31. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 31: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

November 1	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3⅛	3⅛	3⅛	3[illegible]	6.00	2.50	-
week ago	3	3¼	3⅛	3⅛	3¼	6.00	2.50	-
France	3[illegible]	3⅛	3[illegible]	3⅛	3¼	3.20	-	4.75
week ago	3⅛	3⅛	3[illegible]	3[illegible]	3[illegible]	3.35	-	4.75
Germany	3	3¼	3⅛	3⅛	3¼	4.50	2.50	3.00
week ago	3	3¼	3⅛	3⅛	3¼	4.50	2.50	3.00
Ireland	5½	5[illegible]	5¾	5[illegible]	5¾	-	-	6.25
week ago	5⅜	5[illegible]	5[illegible]	5[illegible]	5¾	-	-	6.25
Italy	7⅛	7[illegible]	7[illegible]	7¼	7⅛	9.00	7.50	8.38
week ago	7[illegible]	7[illegible]	7⅛	7[illegible]	7⅛	9.00	7.50	8.38
Netherlands	2⅞	2[illegible]	2[illegible]	3	3⅛	-	3.00	3.30
week ago	2[illegible]	2[illegible]	2[illegible]	2[illegible]	3⅛	-	3.00	3.30
Switzerland	1⅞	1[illegible]	1[illegible]	1[illegible]	2	-	1.00	-
week ago	1⅞	1[illegible]	1[illegible]	1[illegible]	1[illegible]	-	1.00	-
US	5⅜	5⅜	5[illegible]	5[illegible]	5[illegible]	-	5.00	-
week ago	5¼	5⅜	5[illegible]	5⅜	5¾	-	5.00	-
Japan	½	[illegible]	[illegible]	[illegible]	½	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	⅝	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅜	5½	5⅜	5[illegible]	-	-	-
week ago	-	5⅜	5[illegible]	5⅝	5[illegible]	-	-	-
US Dollar CDs	-	5.11	5.08	5.13	5.25	-	-	-
week ago	-	5.11	5.10	5.19	5.41	-	-	-
ECU Linked Ds	-	4¼	4⅛	4⅜	4⅜	-	-	-
week ago	-	4⅛	4⅜	4½	4⅜	-	-	-
SDR Linked Ds	-	3⅛	3⅜	3[illegible]	3½	-	-	-
week ago	-	3[illegible]	3[illegible]	3⅜	3[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 1	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	3⅛ - 3	3⅛ - 3	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	3 - 2⅞	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	3⅜ - 3¼	3⅜ - 3¼	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	7⅛ - 7[illegible]	[illegible]	7 - 6[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	7 - 6¾	7 - 6⅞	[illegible] - 6¾	6⅞ - 6¾	6¾ - 6⅝	6¾ - 6⅝
Sterling	[illegible]	[illegible]	[illegible]	6¼ - 6[illegible]	[illegible]	[illegible] - 6½
Swiss Franc	1⅝ - 1½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	3⅝ - 3[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	5⅝ - 5[illegible]	5½ - 5[illegible]	5½ - 5⅜	[illegible] - 6[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	7⅝ - 7½	[illegible]	[illegible]
Yen	[illegible]	½ - [illegible]	[illegible]	[illegible]	½ - [illegible]	[illegible]
Asian $Sing	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.48	94.47	-	94.51	94.46	61,692	458,394
Mar	94.44	94.42	-0.02	94.51	94.40	79,336	375,773
Jun	94.34	94.31	-0.02	94.42	94.29	60,028	283,458

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.02	95.00	-0.01	95.02	94.98	315	4,010
Mar	94.97	94.89	-0.05	94.99	94.89	259	2,231
Jun	94.88	94.78	-0.04	94.89	94.78	59	1,413

All Open Interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 1		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.65	16.40	4.853	1.951	4869	5.450	20.43	490.6	408.5	21.07	4.070	1.955	4.273	3.202	363.6	2.529
Denmark	(DKr)	53.63	10	8.794	2.603	1.046	2611	2.923	10.96	263.1	219.1	11.30	2.183	1.048	2.292	1.717	195.0	1.357
France	(FFr)	60.98	11.37	10	2.960	1.190	2969	3.323	12.46	299.2	249.1	12.85	2.482	1.192	2.606	1.953	221.7	1.542
Germany	(DM)	20.60	3.842	3.379	1	0.402	1003	1.123	4.209	101.1	84.17	4.342	0.839	0.403	0.880	0.660	74.91	0.521
Ireland	(I£)	51.26	9.558	8.406	2.488	1	2496	2.794	10.47	251.5	209.4	10.80	2.086	1.002	2.190	1.641	186.4	1.297
Italy	(L)	2.054	0.383	0.337	0.100	0.040	100.	0.112	0.420	10.08	8.390	0.433	0.084	0.040	0.088	0.066	7.467	0.052
Netherlands	(Fl)	18.35	3.421	3.009	0.891	0.358	893.5	1	3.748	90.03	74.96	3.867	0.747	0.359	0.784	0.588	66.71	0.464
Norway	(NKr)	48.96	9.128	8.026	2.376	0.955	2384	2.668	10	240.2	200.0	10.32	1.992	0.957	2.092	1.567	178.0	1.238
Portugal	(Es)	20.38	3.800	3.342	0.989	0.398	992.4	1.111	4.163	100.	83.27	4.295	0.829	0.398	0.871	0.653	74.10	0.516
Spain	(Pta)	24.48	4.564	4.014	1.188	0.478	1192	1.334	5.000	120.1	100.	5.158	0.996	0.478	1.046	0.784	89.00	0.619
Sweden	(SKr)	47.46	8.849	7.782	2.303	0.926	2311	2.586	9.694	232.8	193.9	10	1.931	0.928	2.028	1.519	172.5	1.200
Switzerland	(SFr)	24.57	4.582	4.029	1.193	0.479	1196	1.339	5.019	120.6	100.4	5.178	1	0.480	1.050	0.787	89.34	0.622
UK	(£)	51.16	9.539	8.389	2.483	0.998	2491	2.788	10.45	251.0	209.0	10.78	2.082	1	2.186	1.638	186.0	1.294
Canada	(C$)	23.40	4.364	3.838	1.136	0.457	1140	1.275	4.780	114.8	95.61	4.931	0.952	0.457	1	0.749	85.09	0.592
US	($)	31.23	5.824	5.121	1.516	0.609	1521	1.702	6.380	153.2	127.6	6.581	1.271	0.611	1.335	1	113.6	0.790
Japan	(Y)	27.51	5.128	4.510	1.335	0.537	1339	1.499	5.618	134.9	112.4	5.796	1.119	0.538	1.175	0.881	100.	0.696
Ecu		39.54	7.372	6.483	1.919	0.771	1925	2.155	8.076	194.0	161.5	8.331	1.609	0.773	1.689	1.266	143.7	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	0.6606	0.6621	+0.0016	0.6640	0.6582	19,739	57,677
Mar	0.6636	0.6658	+0.0015	0.6673	0.6625	166	3,749
Jun	0.6660	0.6696	+0.0014	0.6693	0.6660	41	2,536

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	0.7917	0.7908	-0.0006	0.7940	0.7860	26,153	43,568
Mar	0.7970	0.7978	-0.0006	0.8000	0.7925	347	2,729
Jun	0.8042	0.8045	-0.0011	0.8042	0.8000	5	608

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	0.8812	0.8874	+0.0062	0.8910	0.8808	16,528	75,558
Mar	0.8948	0.8987	+0.0062	0.9020	0.8948	70	3,142
Jun	0.9100	0.9101	+0.0062	0.9120	0.9100	6	503

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	1.6260	1.6338	+0.0078	1.6420	1.6250	9,736	56,899
Mar	1.6320	1.6308	+0.0074	1.6370	1.6250	243	774
Jun	1.6320	1.6272	+0.0074	1.6320	1.6220	10	157

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls Nov	Calls Dec	Calls Jan	Puts Nov	Puts Dec	Puts Jan
1.610	2.63	3.09	-	0.25	0.78	1.22
1.620	1.93	2.51	2.83	0.49	1.11	1.60
1.630	1.29	1.90	2.33	0.85	1.59	2.04
1.640	0.80	1.42	1.85	1.37	2.21	2.52
1.650	0.46	1.03	1.45	2.22	2.82	3.11

Previous day's vol., Calls 9,454 Puts 3,267 . Prev. day's open int., Calls 142,580 Puts 138,845

■ Pound in New York

Nov 1	—Close—	—Prev. close—
£ spot	1.6360	1.6270
1 mth	1.6350	1.6260
3 mth	1.6328	1.6240
1 yr	1.6207	1.6129

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Markets page in today's edition.

FT GOLD MINES INDEX

	Nov 1	% chg since 29/12/95	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1873.42	-2.1	50.38	100.00	1.80	-	2520.73	1730.45
■ Regional Indices								
Africa (13)	2475.28	-1.1	13.35	26.50	3.11	36.06	3553.66	2309.51
Australasia (6)	2063.53	-12.9	5.62	11.16	2.70	20.64	2927.34	2005.75
North America (12)	1679.59	-0.3	31.40	62.34	0.76	63.54	2186.39	1503.32

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LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§3	F.P.	7.55	4¼	4	†Beechcroft	4		-	-	-	13.2
§135	F.P.	47.1	162½	152½	Charles Taylor	161½		L4.2	0.3	3.3	51.3
3	F.P.	7.02	4½	4	†Corp Exec Search	4½		-	-	-	-
-	F.P.	10.2	162½	155½	†Deep Sea Leisure	162½	+5	-	-	-	-
§146	F.P.	37.3	246	148	†Elec Retail Sys	177½	+7½	-	-	-	-
§80	F.P.	24.9	92½	90½	†Fitness First	90½		bW-	-	-	28.3
100	F.P.	91.5	113½	91½	†Geo Inter Med	91½	-10	-	-	-	-
§	F.P.	-	127	111½	Hartstone 8%	121		-	-	-	-
§100	F.P.	24.9	99½	99	Hlthcare Reform	99½		-	-	-	-
§	F.P.	54.8	177	164½	Interoute Telecm	164½		-	-	-	-
-	F.P.	11.0	132½	124½	†Jardinerie Ints	125		-	-	-	-
§285	F.P.	140.5	310	292½	John D Sports	302	+3½	L4.3	2.5	1.8	28.4
72	F.P.	27.8	79½	73½	†Loftus Road	75		-	-	-	-
*	F.P.	42.9	131½	128	Lomond Undrwrtng	130		-	-	-	-
§10	F.P.	4.23	12¼	11¼	†Mears Group	11¾		K0.2	-	2.1	-
75	F.P.	6.52	91½	82½	†Mondas	91½	+1	-	-	-	-
§154	F.P.	19.7	211½	187½	Oriental Rest	208½	+1	-	-	-	23.3
170	F.P.	993.8	177	165	Thistle Hotels	165	-2½	R3.7	2.5	2.8	17.7
§250	F.P.	191.4	302	282½	Ultra Elctn	294½	-1	RW6.5	2.3	2.8	20.0
§	F.P.	99.5	82	52	†Victory Corp	52½	-1½	-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1996 High	1996 Low	Stock	Closing price p	+or-
125	Nil	4/12	12½pm	5½pm	Brooke Industrial	5½pm	
360	Nil	12/11	8pm	2pm	Cairn Units	2pm	
175	Nil	12/11	15½pm	12½pm	Capital Inds	12½pm	-1
100	Nil	7/11	8½pm	1¾pm	Celsis Intl	1¾pm	
285	Nil	2/12	35pm	15pm	Clyde Blowers	20pm	+1
145	Nil	20/11	19½pm	14½pm	European Leisure	19½pm	
74	Nil	21/11	8½pm	6½pm	Perkins Foods	8pm	
240	Nil	4/11	125pm	115pm	Prism Rail	120pm	

pm premium.

UK INTEREST RATES

LONDON MONEY RATES

Nov 1	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7 - 5¾	6¼ - 6	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	7 - 6	[illegible]	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	[illegible]

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Nov 1, 5.8592pc. ECGD fixed rate Stlg. Export Finance. Make up day Oct 31, 1996. Agreed rate for period Nov 26, 1996 to Dec 24, 1996, Scheme III 7.29pc. Reference rate for period Oct 1, 1996 to Oct 31, 1996, Schemes IV & V 6.001pc. Finance House Base Rate 6pc from Oct 1, 1996

BANK OF ENGLAND TREASURY BILL TENDER

	Nov 1	Oct 25		Nov 1	Oct 25
Bills on offer	£200m	£200m	Top accepted rate	5.8981%	5.6755%
Total of applications	£1059m	£761m	Ave. rate of discount	5.8592%	5.6282%
Total allocated	£200m	£200m	Average yield	5.9405%	5.7083%
Min. accepted bid	£98.530	£98.585	Offer at next tender	£200m	£200m
Allotment at min. level	27%	32%	Min. accept. bid 91 days	-	-

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Cyprus Popular Bank	6.00	NatWestminster	6.00
Allied Irish Bank (GB)	6.00	Duncan Lawrie	6.00	●Rea Brothers	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	Royal Bk of Scotland	5.75
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Singer & Friedlander	6.00
Bank of Baroda	6.00	●Robert Fleming & Co	6.00	●Smith & Williamson Secs	7.00
Banco Bilbao Vizcaya	6.00	Girobank	5.75	Scottish Widows Bank	6.00
Bank of Cyprus	6.00	●Guinness Mahon	6.00	TSB	5.75
Bank of Ireland	5.75	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of India	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Barclays Bank	6.00	●Hill Samuel	5.75	Whiteaway Laidlaw	6.00
Brit Bk of Mid East	6.00	C. Hoare & Co	6.00	Yorkshire Bank	5.75
●Brown Shipley & Co Ltd	6.00	Hongkong & Shanghai	6.00		
Citibank NA	6.00	Julian Hodge Bank	5.75		
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00		
The Co-operative Bank	6.00	Lloyds Bank	5.75		
Coutts & Co	6.00	Midland Bank	5.75		
Credit Lyonnais	6.00	*Mount Credit Corp	6.25		

● Members of London Investment Banking Association
* In administration

BANK RETURN

BANKING DEPARTMENT	Wednesday October 30, 1996	Increase or decrease for week
	£	£
Liabilities		
Capital	14,553,000	
Public deposits	1,157,335,610	+147,438,281
Bankers deposits	2,228,906,332	+208,386,541
Reserve and other accounts	3,348,273,306	+136,994,215
	6,749,068,248	+492,819,037
Assets		
Government securities	1,567,755,655	-269,840,625
Advance and other accounts	1,796,357,314	+1,253,634,245
Premises, equipment and other secs	3,437,700,588	+2,013,237,092
Notes	7,152,080	+2,856,163
Coin	122,651	+832
	6,749,068,248	+492,819,037
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	20,782,847,940	+67,143,817
Notes in Banking Department	7,152,060	+2,856,183
	20,790,000,000	+70,000,000
Assets		
Other Government securities	7,726,627,951	-2,031,054,406
Other Securities	13,063,372,049	+2,101,054,406
	20,790,000,000	+70,000,000

UK GILTS PRICES

[illegible]

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for February 1996: 150.9 and for September 1996: 153.8.

Other Fixed Interest

[illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

STOCK INDICES

	Nov 1	Oct 31	Oct 30	Oct 29	Oct 28	1996 High	1996 Low	Since comp. High	Since comp. Low
FTSE 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250 ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Fledgling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Eurotrack 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Eurotrack 200	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT 30	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Govt Securities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Fixed Interest	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Gold Mines	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

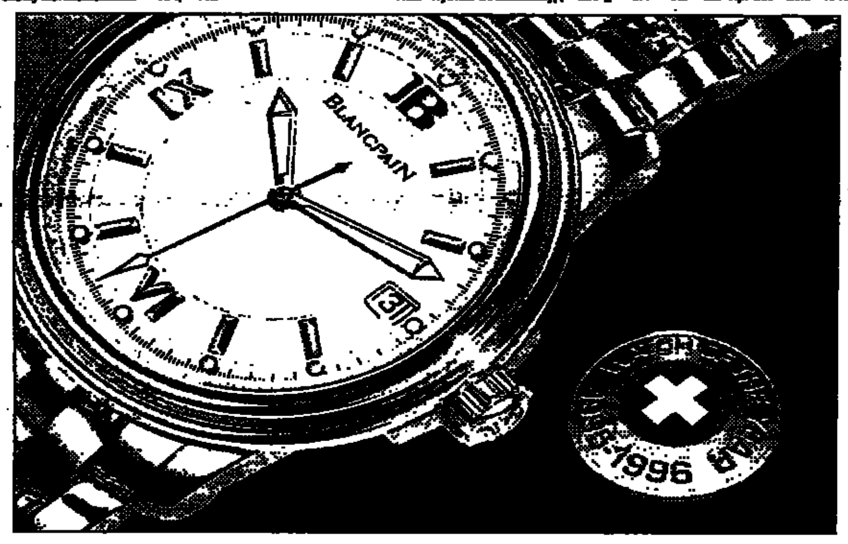
OTHER FINANCIAL

PAPER , PACKAGING & PRINTING

PAPER , PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY



PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

Western Star Trucks 15⅝ −14.0 – – – –

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		£21½xd	----	054Sc	ф	May Oct	2.9	–
Barlow	§†	£5⅝	−8.3	091c	–	Jan Jul	17.6	–
Gold Flds Prop R		128	−5	080c	1.5	Mar Sep	28.2	–
NK Props		62	----	063.8c	–	Mar Sep	9'95	–
SASOL	♥	645	----	078c	–	Oct	9'93	–
SA Brews		£15½	−5.8	0209c	ф	Jul Dec	3.6	4113
Standard Bank		£29½	−5.0	0264c	3.1	Sep Mar	–	–
Tiger Oats	†	789	----	0114c	3.0	Jan Jul	10.6	–
Tongaat-Hulett		687xd	−10.8	0130c	ф	Jan Jun	20.5	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by *Extel*, part of Financial Times Information.

Company classifications are based on those used for the *FTSE* Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- ¥ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend.
b Figures based on prospectus or other official estimates.
c Cents.
g Assumed dividend.
h Assumed dividend after scrip issue.
m Interim higher than previous total.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend excludes a special payment.
t Indicated dividend: cover relates to previous dividend.
u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.
z Dividend includes a special payment: Cover does not apply to special payment.
F Dividend based on prospectus or other official estimates for 1996-97.
G Assumed dividend after pending scrip and/or rights issue.
H Dividend based on prospectus or other official estimates for 1995.
K Dividend based on prospectus or other official estimates for 1995
L Estimated annualised dividend, cover based on latest annual earnings.
M Dividend based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend).
Q Gross.
R Forecast annualised dividend, cover based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend total to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Millenium Chem (Chem), Deltron Elec (Dist), Lavendon Grp (SpSv), Imperial Tob (Tob), Eurasia Mining (AIM). Deletions: Pelican Grp (BP&R), Suter (Dvin),Global Nat Res (OiE), E Surry N/V (Wtr).

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Pembroke Hall, Pembroke, Bermuda

UK: Prof Advisers 0800 414181 — Jersey: 01534 71696

Private Clients 0800 414161 — 00 352 250404230

From O'seas (44) 1732 777377 — Hong Kong (852) 848 1000

Fund	Selling Price	Yield Gr's	City-Line
A$ Accum	A$18.171	5.80	40807
ASch Accum	Sch249.08	2.00	47644
C$ Accum	C$18.717	2.80	40841
DM Accum	DM38.345	1.80	41720
DFl Accum	Dfl31.878	1.70	40999
ECU Accum	Ecu13.607	3.00	41239
FFr Accum	FFr87.087	2.40	41262
HK$ Accum	HK$121.44	4.20	41306
Lire Accum	L23071	7.40	41585
NZ$ Accum	NZ$40.024	6.60	41544
NKr Accum	NKr112.85	3.80	49046
S$ Accum	S$38.053	2.60	49030
SPta Accum	Pta2741.4	5.90	50124
£ Accum	£13.190	4.70	41546
SKr Accum	SKr121.27	3.60	49054
SFr Accum	SFr28.394	0.50	41550
US$ Accum	$23.884	4.40	41575
Yen Accum	Y3960.5	0.10	41582

Prices for dealing November 01

Jupiter Tyndall (Bermuda) Ltd

PO Box HM 1258, Hamilton, Bermuda — 001 809 292 2760

Jupiter Tyndall World Umbrella Fund Ltd

Fund	Selling Price	Buying Price	Yield Gr's	City-Line
Eurobond	$16.13	16.85	3.32	45873
Money (£)	$14.22	14.94	2.38	45872
Mortgage (£)	C$24.19	25.41	7.41	45875
North American	$14.40	15.13	-	45871
Overseas	$17.77	18.67	-	45876
Tiger	$16.93	17.79	-	45877
UK Small Cos	£1.35	1.43	0.00	58166

Newport Investment Management

20 Reid St, PO Box HM 3300 Hamilton Bermuda

M & G (Guernsey) Ltd

Westbourne, The Grange, St Peter Port — 01481 722963

Fund	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
Island Global Fd	0	1788.3	1874.4	1.01	45419
Island Gold	0	4713.1	4938.8	0.093	60120
(Accum. Units)	0	7942.8	8313.4	0.093	45422
Island UK Fd	0	1021.3	1082.6	3.45	45425
(Accum Units)	0	2811.2	2861.9	3.55	45424

Prudential Fund Managers (Guernsey) Ltd

Po Box 61, St Peter Port Guernsey — 01481 707000

Prudential Money Funds Ltd

Fund	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
Managed Sterling		150.5	180.6	3.53	45837
Managed Dollar	5	$14.[illegible]	14.29	3.69	45838
Dollar Deposit		$10.[illegible]	10.01	3.71	45840

Rothschild Asset Management (CI) Ltd

PO Box 242, St Peter Port, Guernsey — 01481 7187425

Five Arrows International Bond Funds

Fund	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
FAIB £ Bond	3½	£21.83	22.33	6.26	47845
FAIB US$ Bond	3½	$32.92	34.03	6.07	47847
FAIB £ Global	3½	£17.43	18.02	5.28	44848
FAIB US$ Global	3½	$31.10	32.16	6.02	44850

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

GUERNSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Baring Mutual (Ireland) Ltd

Fund	Selling Price	Buying Price	Yield Gr's	City-Line
Umbrella Fund Inc	$12.84	13.22	0.00	45874
Greater America Fund '92	$999.53		0.00	45879
Pacific Emerging 94 A	$84.93		0.00	52198
Pacific Emerging 94 B	$81.46		0.00	52200
Latin America	$97.58		0.00	54437
Taiwan Fund NAV	$10.13		0.00	52185

Murray Johnstone (Dublin) Ltd

Europa House, Harcourt St, Dublin 2 — 3531 407 2000

Murray Global Accumulation Fund Plc

Fund	Init Charge	Selling Price	Yield Gr's	City-Line
Murray Financials Bond	2	108.63	5.77	-

Odey Asset Management Ltd

80 Harcourt Street, Dublin 2 — 00 3531 790 2400

Fund	Selling Price	Yield Gr's	City-Line
Odey European Gth Inc	DM160.70	-	45084
Odey European Gth Acc	DM161.29	-	45138
Odey European Gth Inc	$86.57	-	51283
Odey European Gth Acc	£85.61	-	51284

Old Mutual International Fd Mngrs Ltd (x)

9/11 Lower Mount Street, Dublin 2, Ireland — 00 3531 6621555

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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Worldinvest (Managers) Jersey Ltd

	Selling Price	Buying Price	Yield Gross	City-Line
Worldinvest Inc Fd †	$264 46	285.80	5.88	44716
Eurolia Global Emg Mkts	$9.88	9.84	-	-
Eurolia Global Eqty $	$79.05	80.06	-	47878
Eurolia Stg Global Fixed Inc	£11.08	11.74	4.95	49199

Valued weekly * Mondays, † Wednesdays.

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

4 Rue Jean Monnet, L-2180 Luxembourg 352 4249493320

	Selling Price	Buying Price	Yield Gr's	City-Line
Latin America Equity	$47.81	48.53	-	54473
North America Equity	$79.25	79.65	-	54474
Asian Tigers Equity	$80.62	81.23	-	55113
Europe Equity	$72.66	73.02	-	55109
Germany Equity	DM132.60	132.66	-	54475
Japan Equity	$47.10	47.67	-	55114
Europe Bond	$81.00	81.15	-	54476
US Bond	$50.09	50.13	-	55111
Global Bond	$81.02	81.17	-	55110
Germany Bond	[illegible]	106.69	-	54477
Spain Bond	Pta9827	9852	-	55112
Eastern Europe Equity F	[illegible]	174.95	-	66161
China Equity F	$56.04	56.84	-	66162
Switzerland Equity	[illegible]	121.56	-	66163

Abtrust Fund Mngrs Luxembourg SA (u)

4 Boulevard Royal L 2449 Luxembourg 00 352 227001

Abtrust Atlas Fund

	Selling Price	Buying Price	Yield Gr's	City-Line
Global Cap Portfolio		$3.706	-	45309
United States Portfolio		$5.3900	-	45310
Contl Europe Portfolio		DM6.242	-	45312
Japan Portfolio		$0.593	-	45313
Pacific Portfolio		$6.507	-	45314

Fidelity Funds - Contd.

Country Select Funds: ASEAN; Asian Special Situations; Australia; Emerging Markets; European Sm Cos F; France; Germany; Hong Kong; Iberia; Indonesia; Italy; Japan Smlr Cos; Korea F; Latin America; Malaysia; Nordic; Singapore; Switzerland; Thailand; United Kingdom

Bond Funds: European; International; US Dollar; Sterling; Yen

Balanced: European Balanced

Fleming Group (u)

6 Route De Treves L-2633 Senningerberg Luxembourg

00 352 34101 or 0800 960 284

Internet: http://www.flemings.lu/

Fleming Flagship Fund (daily dealing): FFF American; FFF Amer Fleming F; FFF Asian Smaller Cos F

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 31 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Oct 31 / Frs.)

[illegible]

CZECH REP (Nov 1 / Koruna)

[illegible]

DENMARK (Nov 1 / Kr)

[illegible]

FINLAND (Nov 1 / Mkk)

[illegible]

FRANCE (Oct 31 / Frs.)

[illegible]

GERMANY (Nov 1 / Dm.)

[illegible]

GREECE (Nov 1 / Drachma)

[illegible]

ITALY (Oct 31 / Lire)

[illegible]

NETHERLANDS (Nov 1 / Fls.)

[illegible]

NORWAY (Nov 1 / Kroner)

[illegible]

POLAND (Oct 31 / Zloty)

[illegible]

PORTUGAL (Oct 31 / Escudo)

[illegible]

SPAIN (Oct 31 / Pts.)

[illegible]

SWEDEN (Nov 1 / Kronor)

[illegible]

SWITZERLAND (Nov 1 / Frs.)

[illegible]

TURKEY (Nov 1 / TL Lira)

[illegible]

PACIFIC

JAPAN (Nov 1 / Yen)

[illegible]

AUSTRALIA (Nov 1 / Aust$)

[illegible]

HONG KONG (Nov 1 / H.K.$)

[illegible]

INDONESIA (Nov 1 / Rupiah)

[illegible]

MALAYSIA (Nov 1 / MYR)

[illegible]

NEW ZEALAND (Nov 1 / NZ $)

[illegible]

SINGAPORE (Nov 1 / S$)

[illegible]

SOUTH KOREA (Nov 1 / Won)

[illegible]

TAIWAN (Nov 1 / TW $)

[illegible]

THAILAND (Nov 1 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (Nov 1 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Nov 1 / Can $)

4 pm close

Sales			+/-	High	Low
270822	Abitib	18⅝	-⅛	20⅛	16½
42285	AgncEag	18⅝	-⅜	28	14⅝
1632490	AirCda	5⅜	+⅛	5⅜	4⅛
190436	AlbtaE	28⅝		29½	20⅝
686559	AlcanAl	43⅞	-⅝	47⅞	38⅜
16125	AlcoG	23¼	+¼	23½	16⅝
41240	Avenor	22⅝	-⅜	28½	16½
24050	BCSugA x	11⅞		12¼	7⅝
61462	BC Tel	28½		28⅝	23
1068700	BCE	60⅞	-⅛	61⅞	47
23230	BCE Mb	44½		48½	38¼
3776	BGR A	18⅝		20⅝	13⅛
1634740	Bidlont	41⅞	+1	41⅞	20¼

MONTREAL (Nov 1 / Can $)

4 pm close

[illegible]

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Nov 1	Oct 31	Oct 30	1996 High		1996 Low	
[illegible]							
Ireland							
ISEQ Overall(4/1/88)	2680.53	2666.11	2646.85	2768.94	4/10	2234.81	2/1
Italy							
Banca Comm Ital(1972)	(c)	603.85	605.13	674.19	20/5	572.21	27/3
MIB General(2/1/96)	(c)	1024.0	1026.0	1142.00	20/5	978.00	27/3
Japan							
Nikkei 225(16/5/49)	20533.06	20465.86	20881.67	22666.80	26/6	19734.70	13/3
Nikkei 300(1/10/82)	292.05	290.44	293.06	319.79	26/6	284.48	11/3

	Nov 1	Oct 31	Oct 30	1996 High		1996 Low	
[illegible]							
WORLD							
MS Capital Intl(1/1/70)	792.4*	791.8	790.8	801.70	21/10	725.90	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1749.23	1747.44	1754.97	1769.46	21/10	1594.40	11/1
Euro Top-100(26/6/90)	1479.53	1475.59	1475.88	1509.85	18/10	1353.01	11/1
HSBC JC Drgn(31/12/88)	(u)	369.51	368.21	392.86	18/10	344.19	2/1
ING Bngs Eurp(7/1/92)	158.88	158.27	158.11	165.91	4/7	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x Index) (Oct 31)							
Oct	2127.0	2137.3	-	2142.0	2123.5	19,630	11,464
Nov	2131.5	2142.0	-	2145.0	2126.0	19,039	15,344
DAX							
Dec	2698.0	2691.0	-1.5	2699.5	2671.0	14,873	91,250
Mar	2713.0	2699.5	-1.5	2713.0	2695.0	20	5,298

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
OMX							
Nov	1670.00	1674.00	+5.00	1679.25	1669.75	2,210	27,421
SOFFEX							
Nov	3745.0	3743.0	+17.0	3753.5	3735.1	3,621	21,503
Dec	3742.5	3745.5	+27.9	3754.0	3742.5	9	726

** Sat Oct 26. Taiwan Weighted Price (c) ; Korea Comp Ex 791.81. Base values of all Indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♣ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Nov 1- 2670.19 -1.21

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Nov 1	Oct 31	Oct 30	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6021.93	6029.38	5993.23	6094.23 (18/10)	5032.94 (10/1)	6094.23 (18/10/96)	41.22 (8/7/32)
Home Bonds	103.41	103.16	103.00	108.09 (14/2)	100.99 (15/7)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2137.52	2133.56	2096.63	2298.20 (22/5)	1882.71 (18/1)	2298.20 (22/5/96)	13.23 (8/7/32)
Utilities	226.45	226.73	225.19	234.00 (12/2)	204.86 (30/7)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 6082.67 (6063.67) Low 5975.34 (5959.69) (Theoretical♣)
Day's high 6057.70 (6040.56) Low 5990.19 (5990.90) (Actual♣)

Standard and Poors	Nov 1	Oct 31	Oct 30	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	703.76	705.27	700.90	710.82 (18/10)	598.48 (10/1)	710.82 (18/10/96)	4.40 (1/6/32)
Industrials♥	824.68	826.66	821.65	839.55 (18/10)	702.07 (15/1)	839.56 (18/10/96)	3.52 (30/6/32)
Financial	77.13	77.92	77.09	77.92 (31/10)	58.67 (10/1)	77.82 (31/10/96)	7.13 (4/9/74)
NYSE Comp.	373.68	374.50	372.72	378.32 (18/10)	321.41 (10/1)	378.32 (18/10/96)	4.64 (25/4/42)
Amex Mkt Val	572.58	568.72	565.29	614.98 (22/5)	525.60 (16/7)	614.98 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1221.78	1221.51	1206.23	1258.10 (15/10)	986.57 (15/1)	1258.10 (15/10/96)	54.87 (3/10/74)

RATIOS

	Oct 25	Oct 18	Oct 11	Year ago
Dow Jones Ind. Div. Yield	2.15	2.12	2.16	2.46
	Oct 30	Oct 23	Oct 16	Year ago
S & P Ind. Div. yield	1.95	1.92	1.92	2.07
S & P Ind. P/E ratio	22.80	23.15	23.13	17.99

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
New Holland	13,923,700	21¼	-⅜
Ingram Mic	12,316,900	20⅝	+2⅝
Nike	8,213,300	54⅜	-4⅞
AT & T	7,266,500	34⅝	-¼
Sprint	6,334,100	43¼	+4½
Micron	4,577,100	25¼	-⅛
Motorola	4,545,900	45⅛	-⅝
Prime Serv	4,244,900	24½	+1
Ford	4,051,200	30½	-¼
C. de Tele	3,096,900	99	+¾

TRADING ACTIVITY

● Volume (million)

	Nov 1	Oct 31	Oct 30
New York SE	467.479	486.914	434.411
Amex	18.865	19.310	18.515
NASDAQ	(u)	589.578	549.528
NYSE			
Issues Traded	3,253	3,274	3,252
Rises	1,161	1,471	1,183
Falls	1,219	934	1,182
Unchanged	873	869	887
New Highs	132	171	111
New Lows	32	58	69

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
S&P 500							
Dec	709.50	706.50	-3.15	712.70	704.05	73,476	176,090
Mar	717.00	712.75	-3.20	718.55	710.40	215	6,441
Nikkei 225							
Dec	20550.0	20640.0	+180.0	20750.0	20420.0	27,057	212,737
Mar	20510.0	20550.0	+50.0	20660.0	20500.0	1,986	14,757

Open interest figures for previous day.

TOKYO - MOST ACTIVE STOCKS: Friday, November 1, 1996

	Stocks Traded	Closing Prices	Change on day
Nippon Steel Cp	4.3m	331	-1
NKK Corp	4.0m	286	
Mitsubishi Heavy	4.0m	884	+9
Sumitomo Seika	3.6m	843	+32
Kawasaki Steel	3.5m	342	-9
Mitsubishi Elect	3.0m	668	+9
NEC Corp	2.7m	1260	+20
Yuken Kogyo	2.6m	725	-17
Toshiba Corp	2.5m	718	+4
Hitachi	2.4m	1030	+20

4 pm close November 1

NEW YORK STOCK EXCHANGE PRICES

[illegible]

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
49¾	34¼	AT&T	1.32	3.6	35	59706	35½	d34¼	34⅝	-¼
333¼	260	Atl Rich 2	2.80	0.9		2	318⅝	317¼	317¼	
14⅞	7¼	Atlnta Sos	0.28	3.2	8	2	8¾	8¾	8¾	
20	16	Atlntc Egy	1.54	8.7	13	625	17¾	17½	17¾	+⅛
135	107½	AtlRch	5.50	4.2	13	3055	132¼	129¾	130⅛	-2⅞
2	½	Atlas	0.50	57.1	1	90	⅞	⅞	⅞	
31	20⅞	AtmosEn	0.96	4.0	14	555	23⅞	23⅝	23¾	
27½	15⅛	Augat	0.16	0.6	43	2139	27⅜	27⅛	27¼	-¼
9⅞	8¼	Austria Fd	0.03	0.3		173	8¾	8⅝	8¾	
45¾	35⅝	AuData	0.80	1.9	25	3161	42⅛	41½	41⅝	
37⅝	23⅞	AutoZone			22	4517	25⅞	25¼	25¼	-⅜
16½	11¼	Avemco	0.48	3.1	10	35	15½	15⅜	15⅜	+⅛
10⅜	5⅞	Avalli	0.04	0.4	0	108	9⅛	9⅛	9¼	+⅛
54⅞	38	Avnet	0.60	1.2	11	1114	51⅜	50½	50½	+⅛
54⅞	36¼	AvonPr	1.16	2.2	26	5692	u54⅞	53⅛	53⅜	-⅞
17½	9	Aydin Corp	1.00	10.0	4	250	10½	10	10	-⅛
14⅛	7⅞	Aztar				27 1398	8¼	7⅞	8½	

- B -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
48¾	34½	BCE	2.72	6.0	25	1975	46	45½	45⅝	-⅜
8½	5½	Bairnco	0.20	3.2	7	29	6¼	6¼	6¼	
20¾	16⅞	Baker Fent	0.40	2.1	155	168	18⅞	18½	13⅝	
37	22¾	BakerH x	0.46	1.4	30	9649	35⅝	34	34	-1⅝
25	18½	Baldor Elc	0.40	2.0	16	635	20¼	20	20	-⅛
32¼	23⅛	BallCp	0.60	2.5	20	305	24¼	24⅛	24⅛	
20⅝	15	BltdMd	0.08	0.4	21	730	18⅛	17⅝	18	+⅜
30½	12¾	Bally			19	2797	d30½	29⅞	30½	+½
29½	25	BaltGE	1.60	5.8	12	1417	27⅞	27⅛	27⅜	+⅛
43¼	31¼	BncOne	1.36	3.3	13	7923	42¼	41⅜	41¾	-⅝
48⅞	35¼	BancoBil V	1.44	3.0	16	83	48½	48	48½	-⅞
12⅛	9¼	BCH	0.23	1.9	38	14	u12⅛	11⅞	12	
39⅞	33½	BcrpHawaii	1.20	3.0	12	178	u39⅞	39⅝	39⅞	+¼
55⅞	44½	Bandag	0.90	1.9	13	209	47¾	47⅜	47⅝	+⅛
92	58¾	BankAm	2.16	2.4	12	6556	u92	91	91⅛	-⅛
33½	21¾	BankNY	0.88	2.7	13	11375	u33½	32½	32½	-⅝
24	19¾	BTM ADR	0.07	0.3	156	65	20½	20¼	20¼	-¼
51	45	BankAm A	3.25	6.6		21	49¼	49⅛	49⅛	
93	82¾	BankAm B	6.00	6.5		42	92	91	91⅝	+½
64¾	41½	Bkbstn x	1.76	2.8	14	4090	64	62⅝	62¾	-1¼
85	75¼	BkbosD 59	5.48	6.7		z100	82	82	82	+1
46⅝	41½	BkbostnA	3.00	6.5		4	46⅜	46⅛	46⅛	-¼
85¼	61	BnkTst	4.00	4.7	12	4395	u85¼	83¼	84¼	-¼
65¼	42	Bclays	1.82	2.9	12	10	63¾	63½	63¾	+¼
37⅜	27⅝	Bard (C R)	0.68	2.4	17	1328	28½	27¾	28	-¼
58½	35	Barnes Grp	1.80	3.2	12	75	u56½	56	56¼	
39¼	27¾	BarrBk	1.08	2.8	13	3317	38⅞	37⅞	38⅛	
32⅞	24⅝	BrckGd	0.12	0.5	33	9012	26⅞	26	26¼	+⅛
16	10¼	BarryRG			12	381	11¼	11	11⅛	
11⅝	7⅛	BattlM	0.05	0.6	155	2900	7⅞	7⅝	7¾	+⅛
44½	32½	Bausch	1.04	3.1	20	10991	33⅞	33¼	33¼	-½
46⅛	33	Baxter	1.21	2.9	16	11263	41¾	41⅛	41½	-⅛
43⅝	18⅛	BayNtwks			27	29937	20¾	20⅛	20⅝	+⅜
29⅞	25⅞	Bay St Gas	1.54	5.5	13	128	28⅛	27¾	27⅞	-½
40⅞	15⅞	BBN			9	898	22⅞	21	21⅞	+½
22¾	19⅞	Bd Tr 1838	1.56	7.9		12	19⅞	19¾	19¾	-⅛
8⅞	7⅛	BEA Inc	0.72	9.6		732	7½	d7⅜	7½	
9⅝	8½	BeaStra	0.81	8.9		147	9½	9	9½	+⅛
24⅞	17¼	Bear Stns	0.60	2.6	6	3317	23⅞	23⅛	23⅝	-¼
44⅞	41	BearS8PIA	2.82	6.5		z100	43⅝	43⅝	43⅝	

[illegible]

- C - [illegible]

- D - [illegible]

- E - [illegible]

- F - [illegible]

- G - [illegible]

- H - [illegible]

- I - [illegible]

- J - [illegible]

- K - [illegible]

- L - [illegible]

- M - [illegible]

- N - [illegible]

- O - [illegible]

- P - Q - [illegible]

- R - [illegible]

- S - [illegible]

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4 pm close November 1

NYSE PRICES

Continued from previous page

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
24	17	Scotman	0.10	0.4	12	81	23⅞	23¾	23¾	
49⅛	39⅛	Scripps	0.52	1.1	26	1277	48	47½	47⅞	-¼
18⅛	12¾	ScuddrNAsF	0.02	0.2		88	12⅞	d12¾	12⅞	+½
14⅛	11	ScuddrNEuF	0.16	1.2		387	14	13¾	13¾	
20¾	14¾	SeaCnA x	0.77	4.8	21	119	16¼	15⅞	16	-¼
16	15	SeaC1.4625	1.46	9.7		3	15⅛	15⅛	15⅛	-¼
69	36⅛	S'gate				3222108	67⅝	64⅞	65⅞	-⅛
38⅞	30⅞	Seagrm	0.61	1.7	25	3830	38	36⅞	37	-1⅜
26	17⅛	Seagull En	1.20	5.7	50	2341	21⅛	20⅞	21	-⅜
39⅞	26	Sealed Air	0.84	1.6	28	182	39½	39	39⅛	-⅝
59⅞	39¼	SearsR	0.92	1.9	17	12877	48⅝	47¾	47⅞	+¼
22¾	19¼	ScCpSBH$	1.24	5.5	15	690	22⅝	22¼	22½	-½
13	11⅞	Seligm Sel	0.84	6.8		50	12½	12¼	12⅜	
23¾	13⅝	Sensormat	0.22	1.3	12	2361	16½	16⅜	16½	
46½	29½	SequaA	0.60	1.4	48	50	42	41¾	41¾	+⅛
53⅞	39	SequaB	0.50	1.0	60	10	52	52	52	
31¾	18½	SerVCp	0.24	0.8	27	6403	29	28½	28⅝	
26⅝	19½	SvMstr	0.68	2.7	15	385	25½	25¼	25¼	+⅛
8¼	4⅞	ServMerch			13	1005	5⅞	5¾	5¾	-⅛
57½	28½	SGSThsp			11	523	52⅞	52½	52¾	-⅛
15⅝	10⅝	Shaw Ind	0.30	2.6	30	2372	11¾	11⅝	11¾	+⅜

[illegible]

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
25¾	20⅞	Yankee Egy	1.30	5.8	11	18	22¾	22⅝	22½	-¼
53¾	43⅞	York Int	0.36	0.7	22	2844	48¾	48⅜	48¾	+⅜
3⅞	3	Zapata	0.14	3.9	10	11	3¾	3⅝	3⅝	-⅛
25¾	5⅞	ZnthEl			6	1284	13⅛	12⅝	12⅝	-½
28⅞	21⅛	Zenith Nat x	1.00	3.7	36	64	27¼	26⅞	27¼	
7¼	6½	Zenix Inc x	0.72	10.1		195	7⅛	7	7⅛	
22⅞	15⅛	Zero	0.12	0.6	15	237	18⅝	18⅜	18½	+⅛
26	18½	Zurn Ind	0.40	1.6	20	307	25⅜	24¾	25¾	+¼
11⅞	10½	Zweig Fund	1.08	9.8		227	11	10⅞	11	+⅛
9	8¼	Zweig Tot	0.84	10.0		254	8½	8⅜	8⅜	-⅛

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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NASDAQ NATIONAL MARKET

4 pm close November 1

[illegible]

AMEX PRICES

4 pm close November 1

[illegible]

FT GUIDE TO THE WEEK

MONDAY 4

Labour manifesto vote

The British opposition Labour party announces the results of a membership ballot on its draft election manifesto. Billed as its biggest-ever exercise in party democracy, the vote has been dismissed as a meaningless stunt by Labour's enemies since members can only accept or reject the entire document. Fearing a low turnout, Labour set up a freephone number for its 400,000 members to vote; more than half are expected to have participated.

Li Lanqing in London

Li Lanqing, China's vice-premier, begins a four-day visit to London. Mr Li, whose responsibilities include foreign trade and investment, will discuss with UK counterparts commercial relations and also issues related to China's takeover of Hong Kong on July 1 1997. Mr Li is a candidate to replace Premier Li Peng when he steps down in early 1998.

Venezuelan roadshow

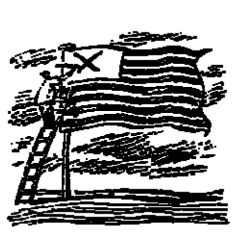
The Venezuelan telecommunications company, CANTV, launches a European road show to promote the sale of 40 per cent of its shares. The global managers of the offering are Lehman Brothers and SBC Warburg. A US road show follows on November 14. This sale of about 239.4m shares marks the revival of a privatisation programme stalled for more than two years.

Public holidays

Andorra, Colombia, Dominica, Japan, Panama, Tonga, Vatican City, Venezuela.

TUESDAY 5

US presidential election



Voters in the United States choose a president, 435 members of the House of Representatives, 34 senators and thousands of state and local officials. In several states they also vote in referendums, ranging from an attempt to end affirmative action in California to a proposal to reverse a ban on bear-baiting in Oregon. While President Bill Clinton is expected to secure a comfortable victory over his Republican opponent, Bob Dole, the outcome of the congressional races is much less certain. If the Republicans keep their majorities, they may continue to set much of the domestic policy agenda in the next two years.

Sober German forecast

A sober view of Germany's economic prospects is likely when the DIHT, the umbrella body for the chambers of industry and commerce, publishes its autumn survey. Last year, with a warning of slow growth and rising unemployment, it gave a more accurate forecast for this year than the government and most economists. The outlook for 1997 is likely to be less than euphoric: the DIHT said last week the forecast of 2.5 per cent growth for 1997 by Germany's six leading economic research institutes "was more hope than expectation".

All votes count: as election day approaches on Nov 5, Bob Dole (left) and Bill Clinton are trying to encourage a largely apathetic American public

Strike in Russia

A nationwide general strike is scheduled in Russia to protest against wage arrears which have left some workers unpaid for several months. Although similar protests have had little impact in the past, some observers think that this year could be different because the patience of Russia's long-suffering workers may have worn out.

Japan-Russia talks

Japanese and Russian foreign and defence officials meet in Tokyo for a discussion on international affairs (to Nov 6). This is the fourth such meeting since 1992 and part of attempts to put troubled relations on a better footing. They remain the only combatants from the second world war yet to sign a peace treaty, because of differences over which country owns four Russian-occupied islands north of Japan.

Horse racing

Much of Australia will shut down for the Melbourne Cup. The easy favourite is Oscar Schindler, an Irish horse which came third in the Prix de l'Arc de Triomphe. Many businessmen are wondering about a double: the Reserve Bank board meets in the morning, amid speculation over a further easing in the interest rate.

FT Survey

East African Community.

Public holidays

Australia, Dominica, El Salvador, Puerto Rico.

WEDNESDAY 6

Charles in central Asia

Prince Charles arrives in Turkmenistan at the start of a six-day official tour of central Asia, during which he will open two British embassies – in Ashgabat (Turkmenistan) and Tashkent (Uzbekistan). A Buckingham Palace official said that the trip was about "building bridges" in a region rich in oil, gas and minerals. Prince Charles will be the most senior member of the royal family to have visited the area.

Suicide threat in India

An Indian feminist group, Women's Awakening, has threatened to launch a series of self-immolations until the culmination of the Miss World beauty contest in Bangalore on November 23. The group claims the contest is degrading and inappropriate in a country where women are often the chief victims of poverty and discrimination. A leader of the group said they would turn Bangalore into a "battlefield". Feminist protesters will be joined by Gandhian and Moslem groups who oppose what they see as brazen, western decadence.

Sri Lanka unveils budget

Sri Lanka presents its annual budget for next year amid a worsening deficit, falling privatisation revenue, galloping inflation and mounting expenditure to battle separatist Tamil Tiger guerrillas. Draft estimates laid before parliament last month showed that 22 per cent of government spending in 1997 would go towards financing the war against Tamil Tiger guerrillas, compared with about 16 per cent in 1996.

Saleroom

One of the most celebrated paintings by the turn-of-the-century British artist John William Waterhouse is up for auction at Sotheby's in London, with an estimated price of £1.5m. Humming with suppressed sexuality, "Flora and the Zephyrs" could well appeal to collectors beyond Europe alone. In the Christie's auction of Victorian art on Friday there is another important Waterhouse work, "The Charmer", estimated at up to £500,000. In 1967, when such escapist, decorative works were out of fashion, it sold for 420 guineas.

FT Surveys

FT Review of Information Technology; Indian Software.

Public holidays

Morocco, Tajikistan.

THURSDAY 7

Franco-British summit

British and French leaders assemble in Bordeaux, south-west France, for the annual Anglo-French summit (to Nov 8). Both John Major, the British prime minister, and Jacques Chirac, the French president, are expected to be accompanied by about half-a-dozen senior ministers. Subjects high on the agenda are likely to include the EU intergovernmental conference, Nato reform, bilateral defence issues, the Middle East and Bosnia.

Hashimoto in re-election

The Japanese parliament convenes for a five-day session during which Ryutaro Hashimoto is almost certain to be re-elected for a second term as prime minister. However, he is also likely to lead a precarious minority government, with very limited scope to put through the economic deregulation measures which economists agree are vital to lift the maturing Japanese economy's growth potential.

Public holidays

Bangladesh, Russia, Tunisia, Ukraine.

FRIDAY 8

Scottish bridge decision

The written judgment is expected on an appeal by a man who was convicted of refusing to pay the toll for crossing the Skye Bridge in Scotland. George Anderson, a retired trade union official, contends that the tolls – £4.30 for a car in winter – were illegal. A defeat for the government would be politically embarrassing and a blow to the private finance initiative, under which the £25m bridge was built.

Waigel learns tax forecasts

Theo Waigel, Germany's embattled finance minister, will brace himself for more bad budgetary news when experts from his ministry, the federal states, the Bundesbank and economic research institutes update tax revenue forecasts for 1997. Mr Waigel has already said he expects lower revenues for the federal and state governments and has signalled further public spending cuts to keep next year's budget deficit at DM56.5bn (£22.9bn) on track for Emu convergence.

Sanctions forum in Geneva

Senior officials from Libya, Iran and Iraq are to take part in a two-day conference in Geneva on the value and impact of economic sanctions. The venue was switched from the European headquarters of the United Nations to a nearby hotel after objections from Washington. The conference is organised by the Institute for Global Leadership, which also runs the annual forum for world political and business leaders in Crans-Montana.

FT Survey

Middle East Capital Markets.

Public holidays

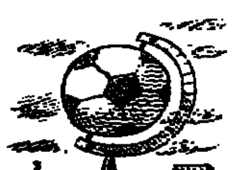
India, Ukraine.

SATURDAY 9

Castro visits Santiago

Heads of state from all 21 Spanish and Portuguese-speaking nations of Latin America and the Caribbean, plus Spain and Portugal, gather in Chile for the sixth annual Ibero-American summit. Among them will be President Fidel Castro of Cuba, who will sign the final declaration in favour of democracy, pluralism and respect for human rights. Meanwhile, the summit in Santiago will also "energetically reject" the Helms-Burton amendment passed by the US Congress which seeks to restrict trade and investment in Cuba.

Soccer



England play Georgia away in a World Cup European qualifying match, for which Paul Gascoigne has been picked for the squad in spite of repeated on-field misbehaviour and allegations of wife-beating. Other matches include Holland v Wales and Germany v Northern Ireland.

Public holidays

India, Nepal, Pakistan, Spain (Madrid only).

SUNDAY 10

Elections in Slovenia

Slovenia, the most successful state to emerge from the ruins of former Yugoslavia, votes in general elections in the third multi-party poll and the second since the tiny republic seceded from the Yugoslav communist federation in 1991. Opinion polls show the Liberal Democrats of Janez Drnovsek, the prime minister, leading the main opposition. His centre-left party, the senior member in the coalition government, is expected to face its biggest challenge from the right-wing coalition headed by Janez Jansa, the former defence minister.

Soccer

Nine World Cup European qualifying matches, including Scotland v Sweden and Republic of Ireland v Iceland.

Public holidays

Malaysia, Mauritius, Singapore, Sri Lanka.

Compiled by Simon Strong.
Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: US construction spending is thought to have decelerated in September, while the annual rate of UK narrow money supply growth should have been stable in October.

Tuesday: UK manufacturing production is expected to have returned to an upward trend in September after its weakness in the preceding month. Canada's foreign exchange reserves should have increased in October, after falling in September.

Wednesday: The Confederation of British Industry releases its latest survey of retailers. Inflation in Italy is thought to have decelerated a little in October.

Thursday: Unemployment is forecast to have risen in October, but at a slower rate than in the previous month. US consumer credit growth is predicted to have gained momentum in September.

Friday: Inflation in the Netherlands may have picked up a little in October, while the unemployment rate in Canada is forecast to have declined a little. Wholesale trade in the US is expected to have rebounded in September, after the fall it recorded in August.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	Oct M0*	0.5%	0.2%
Nov 4	UK	Oct M0**	6.9%	7.0%
	Canada	Aug labour income*	0.0%	-0.6%
	US	Sep construction spending	0.2%	0.9%
Tues	*UK*	*Sep industrial production**	*0.5%*	*-0.4%*
Nov 5	UK	Sep industrial production**	0.0%	0.0%
	UK	Sep manufacturing output*	0.5%	-0.3%
	UK	Sep manufacturing output**	0.2%	-0.8%
	Canada	Oct foreign reserves (change)	C$400m	-C$100m
	US	Sep home completions	--	1.42m
	US	Redbook weekend Nov 2	--	0.4%
	Japan	Oct trade balance (first 20 days)	--	Y190bn
	Spain	Oct official reserves	--	+$1.28bn
Wed	Italy	Oct consumer price index*	0.1%	0.3%
Nov 6	Italy	Oct consumer price index**	3.0%	3.4%
	Arg'tina	Sep trade balance	-$25m	$26m
Thurs	Aust'lia	Oct unemployment	15,000	-34,000
Nov 7	Aust'lia	Oct unemployment rate	8.7%	8.7%
	Italy	Aug European Union trade balance	L2,300bn	L5,600bn
	Italy	Sep ex-European Union trade balance	L3,900bn	L5,700bn
	Germany	Oct unemployment	10,000	39,000
	Germany	Oct unemployment, west†	10,000	34,000
	Germany	Oct unemployment, east†	no change	4,000
	Germany	August employment, west†	-3,000	no change
	Poland	Sep current account balance	--	+$58m
	Poland	Sep trade balance (Nat Bank of Poland)	--	-$810m
	US	Q3 productivity preliminary	--	0.5%
	US	Sep consumer credit	$5.5bn	$3.3bn
	US	M1 - week ended Oct 28	--	$11.4bn
	US	*M2 - week ended Oct 28*	*--*	*$10.8bn*
	US	M3 - week ended Oct 28	--	$14.7bn
Fri	Neth'ds	Oct consumer price index*	0.1%	0.9%
Nov 8	Neth'ds	Oct consumer price index**	2.2%	2.0%
	Canada	Oct employment rate†*	0.1%	-0.3%
	Canada	Oct unemployment rate	9.7%	9.9%
	Sweden	Oct unemployment rate	--	8.3%
	Canada	Oct housing starts, units	134,500	132,000
	US	Sep wholesale trade	--	-0.9%
During the week...				
	Germany	Sep industrial production*	0.5%	0.0%
	Germany	Sep manufacturing output*	0.2%	0.6%
	Germany	Sep industrial production, west*	0.6%	-0.8%
	Germany	Sep industrial production, east*	--	6.1%
	Switz'd	Oct unemployment rate	4.5%	4.6%
	Belgium	Oct unemployment rate	14.0%	14.2%
	Germany	Aug trade balance	DM9.0bn	DM10.9bn
	Germany	Aug current account	DM3.3bn	-DM4.4bn
	Japan	Sep current account (IMF) non†	Y650bn	Y1,100bn
	Japan	Sep trade balance (IMF) non†	--	Y1,300bn

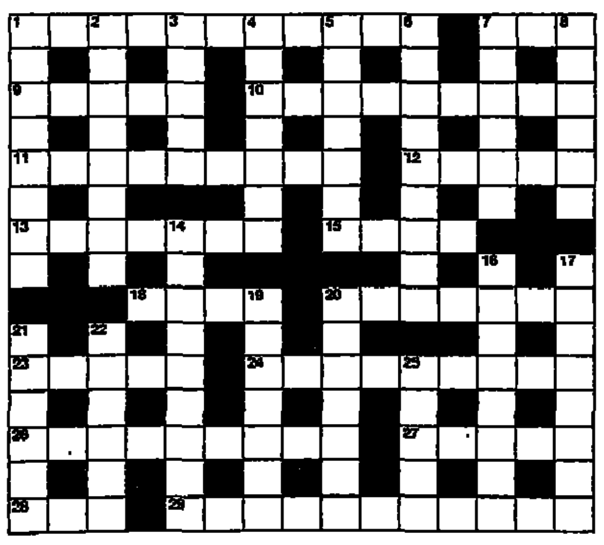
*month on month, **year on year, †seasonally adjusted. *Statistics, courtesy MMS International.*

ACROSS

1 A digital recording? (11)
7 Male singer loses his head – the fool! (3)
9 She takes a long time to grasp the point (5)
10 Perfume, free to wearers (4-5)
11 Understanding lot of people? (9)
12 Beguile a lot of finches (5)
13 Unnecessary loss of a point irritates (7)
15 Ride or fall (4)
18 Storm caused by parking on drive (4)
20 Primate possibly irregular in speech (7)
23 Flower girl who was asked for an answer (5)
24 Tasmania was his land (3,6)
26 Try *naming* Cook's vessel (9)
27 She's in sanitation (5)
28 The cash element (3)
29 How a top actor went over as Romeo? (4-7)

DOWN

1 Growing tired of signalling? (8)
2 A number of bonds are for a ten-year period (8)
3 Follow directions, girl (5)
4 Groups of wild pirates (7)
5 Visible penetration (7)
6 He called to give the news (4-5)
7 In reality a cult with a difference (6)
8 Ten-foot midget! (6)
14 Times of scarcity won't worry Mr Sprat (4,5)
16 Small company simply involved in producing games (8)
17 Profit announced – and denied (8)
19 Physiologist has a sweet (7)
20 Facts *going* to one boy is applicable to the whole class (7)
21 Notice the opening in good time (6)
22 A horse may be afflicted (6)
25 State aid distributed by the Home Office (5)



MONDAY PRIZE CROSSWORD

No.9,216 Set by DANTE

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday November 14, marked Monday Crossword 9,216 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday November 18. Please allow 28 days for delivery of prizes.

Name...

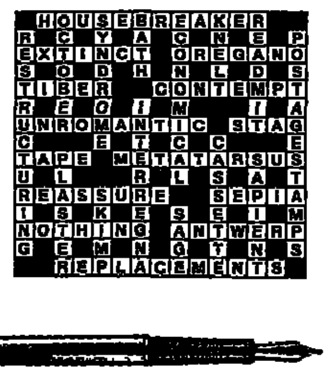
Address...

....

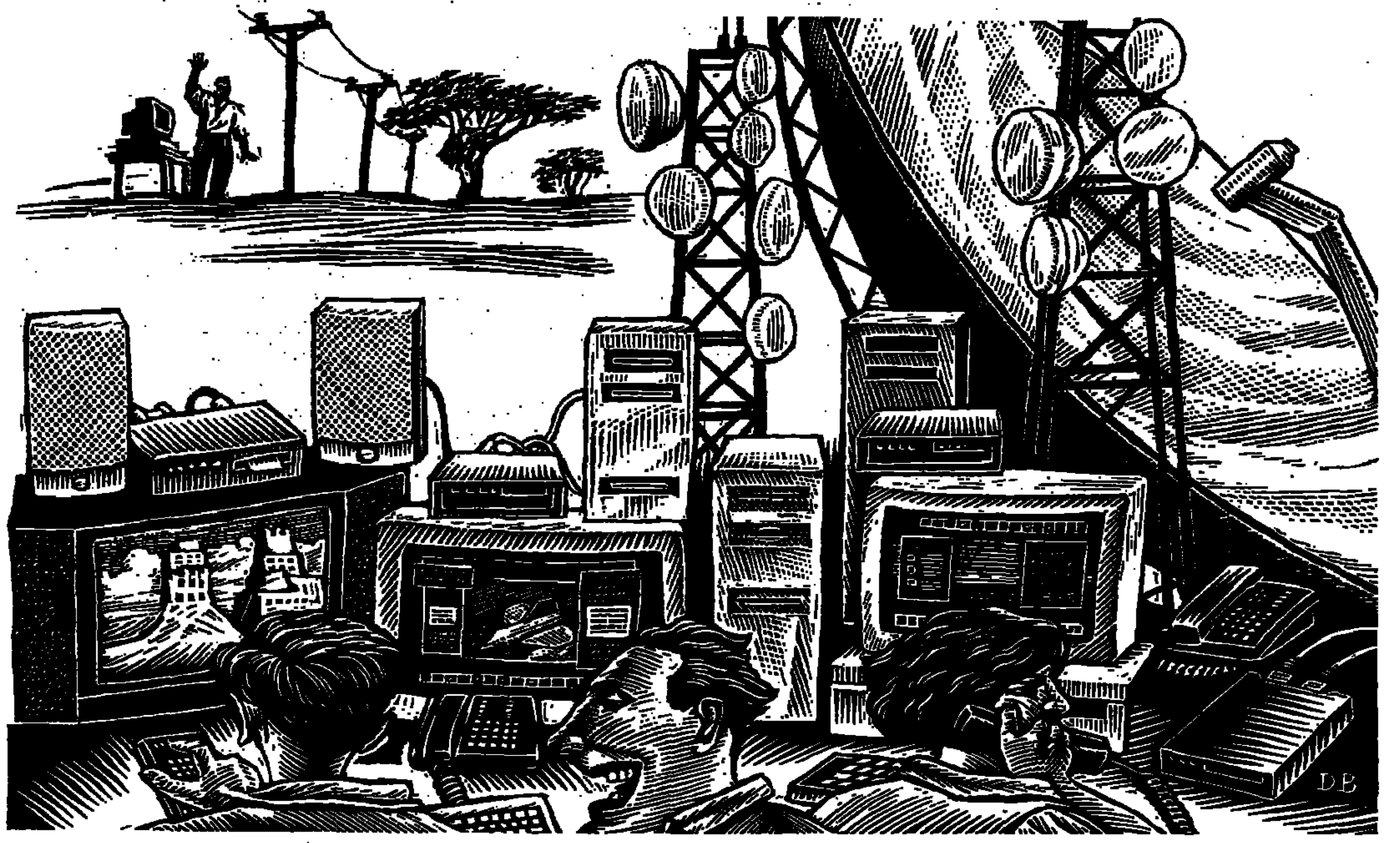
Winners 9,204

Mrs S.A. Board, Wales, Nr Sheffield
D.A. Carey, Maidenhead, Berks
S.A. Clack, London E16
J. Flavell, Burbage, Leics
Mrs J. Johnston, Caerleon, S. Wales
A. Molins, London SW1

Solution 9,204



JOTTER PAD



Can't pay, won't cybersurf

Cheap unlimited Net access will not last much longer, writes **Alan Cane**

The end of the Internet as an essentially "free" service seems in sight. The omens include the advanced transmission systems being built by telecommunications operators around the globe to accommodate Net traffic and the delays caused by congestion on the lines which have turned the World Wide Web into the "World Wide Wait".

For business users in particular, today's Net performance – which works on a "best-effort" system, guaranteeing neither speed nor capacity – is simply not good enough. They will be the first customers for the premium services from the large operators which, for a price, will guarantee quality performance.

The prospect raises the spectre of a world divided further by a technology that many had hoped would help to bring it together. James Cosgrove, chief executive of AT&T Unisource and a former head of AT&T's multimedia activities, thinks that advanced technologies such as Asynchronous Transfer Mode (which allows data, voice and video to be mixed in the same transmission) will be common in telecoms links between metropolitan areas within five years. But not, he believes, in developing countries or rural areas.

As Anne Leer of Oxford University points out in a new book*: "The pessimists claim that the rich will dominate the poor and that access to the global information infrastructure will be restricted to those who can afford it.

"They fear that the winners to benefit from the GII will be the competitive nations of the world and not the starving ones."

The paradox is that while the Net seems to be creaking to a halt as congestion clogs the links between its individual networks, there is abundant capacity in the global telecoms network. After all, four glass fibre strands each the thickness of a human hair can transmit 600,000 conversations simultaneously. There is a lot of glass fibre on the ocean bed and a fleet of communications satellites aloft. As David Hughes, Net engineering manager for British Telecommunications, points out: "The principal operators have kept well ahead of congestion by adding capacity."

A host of techniques exists to improve glass fibre transmission capacity from today's 5bn bits (binary digits) a second to 20bn bits a second over the next five years. Well understood technologies such as wave division multiplexing can double transmission capacity.

Why, then, are the networks congested? Because both the technological and the business models of the telephone network are inappropriate for today's traffic. The network was designed statistically for brief voice conversations: in areas of high Net use, customers leave the lines open for hours at a time. Furthermore, the Internet being a network of networks, there are many different links between a customer and a Web site.

The customer's service provider may have too few modems or provide too narrow an electronic pipe between the node and the backbone network. Result: congestion.

The creator of a popular Web site may have too small a network server (database computer) or too few access ports to satisfy all those anxious to visit the site. Result: more congestion.

All of this points to the inadequacy of today's business model: there is ample capacity in the backbone networks but it is unclear how much of it the operators are prepared to allocate to Net services at very low prices. "In the end," says Mr Marcel Horst, Net services manager for Energis, the UK telecoms operator, "the user will have to pay for enhanced quality."

Who the user should be is open to debate. It could be a company which cuts costs by marketing or distributing over the Net. But the days of unlimited Net access for a small monthly subscription are surely numbered.

**It's a Wired World. Anne C. Leer, Scandinavian University Press. 1996. £31.*

Tim Jackson

Online aisles of joy

It cannot be easy to pull the wool over the eyes of Tesco, Britain's most innovative supermarket retailer. Yet Microsoft seems to have done just that. As part of the company's war against Netscape, Microsoft has hoodwinked Tesco into setting up a new Internet shopping service in such a way that customers using a Netscape browser cannot easily look at the service, let alone use it.

Combined with a number of other obvious flaws in the service's Web site (*www.tesco.co.uk/superstore*), this will reduce by more than 50 per cent the number of its potential customers. But with luck, that may prove only a temporary aberration – and Tesco may soon be able to take credit for the most important innovation in food retailing since the invention of the supermarket itself.

The idea of ordering food electronically for home delivery is not itself new. Peapod, an innovative American company that was covered in this column last winter, has been selling food from Safeway to thousands of US customers via PCs and phone lines for more than a year now. But so far no mainstream supermarket chain has implemented online shopping itself, instead of in partnership with an outside company. Tesco may well be the first to do so.

The Tesco service, formally launched last Thursday, allows customers to buy any of the 20,000 different items on sale at the company's Osterley superstore in outer west London, including fresh fruit and vegetables, bread, wet fish, and ice cream. The price to the customer is only £5 ($8.15) plus the total shown on the till receipt. If they order before 4pm, customers can pick a two-hour window for delivery the next day between 8.30am and 9.30pm. They can also earn points on their supermarket loyalty cards, and pay by credit or debit cards.

As with Peapod, the Web interface is only the tip of the technical iceberg. Order details are transferred from the Web server to Tesco's internal e-mail system and then printed out at Osterley in a "picking order" designed to get the products into the trolley as swiftly as possible. Orders are fulfilled one at a time by a uniformed Tesco employee who walks around the store and pays at a designated checkout counter. They are then delivered in one of three Transit vans equipped with a zone cooled to 3C.

Because the food stays chilled during delivery and customers have to give a day's notice of orders, Tesco can load between 20 and 40 orders at once in a single van instead of wasting driving time on lots of small to-and-fro trips. Ken Towel, a former Tesco superstore manager who is in charge of the project, claims that the total marginal cost to the company of the extra service is less than the £5 delivery charge – astonishing when you consider that the labour cost of the shopping alone probably runs to £1.50 or more.

The system is a pilot scheme offered within a five-mile radius of the single Osterley store. So far there are only a few hundred customers whom Tesco recruited by sending out an electronic junk mail shot to CompuServe and MSN subscribers living in specified postal districts. That is odd, since the company would bring in extra business, rather than simply converting existing drive-in customers to home delivery, if it ran a pilot scheme in a central London district that does not have a large Tesco.

Other aspects of the service will probably need to change when it becomes more widely available. Tesco has no formal checking system to make sure its staff pick the right products. With the high cost of correcting mistakes, the best way to maintain quality as volumes increase may well be to print out the product barcodes on the picking lists so they can be checked against the packages pulled off the shelves.

In the long term, the service has great potential for customers. Supermarket shopping may be more economical and convenient than strolling around shops one by one, but no one could claim it is fun – particularly with children. Once they have used online ordering to get their regular weekly list, many middle-class British families could find the service becomes as indispensable a part of their lives as chill-cook food and a microwave.

For the supermarkets, home delivery is an equally dramatic departure. At present, delivery of groceries is a premium niche-market service in Britain, offered only by a few upmarket names. Yet supermarkets have unparalleled experience of logistics and cost control. If Tesco and its competitors can apply the same discipline to delivering food from stores to customers as they already have done from warehouses to stores, the result may be to bring about a change in the entire culture of shopping in Britain.

Not only would online grocery ordering become a compelling reason for households to hook up to the Internet. More interestingly, the service could remove one of the most important reasons for city-dwellers to own cars.

The result might be that the supermarkets – excoriated by many environmentalists for the harm they have done to cities by inventing out-of-town shopping – may once again return to favour. Job creation, convenience for the old and disabled, friendliness to the environment: online grocery shopping has something to satisfy every political taste.

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Robot dog acquires byte

'Synthetic characters' are here at last, says **Victoria Griffith**

Do you love me? *I live for your approval.* Are you a computer or a real person?

So opens an Internet exchange between an anonymous surfer and Julia, a computer programme with attitude which wanders cyberspace in search of people to chat with. The brainchild of Michael Mauldin of Carnegie Mellon University, Julia is an early example of a virtual human. With strong opinions and the ability to interact with others, Julia fools many into thinking she is human.

For years the playthings of academics and cyberfanatics, creations like Julia – also known as "synthetic characters" or "bots" – are about to be introduced to the mainstream. Grey Advertising says it is studying similar technology for use in several publicity campaigns across the Net. IBM says it may replace technical support with virtual humans.

Abbott Brush, of IBM's Net division, envisions virtual car salesmen who would take viewers around a cyberspace car lot.

"Shoppers could shake hands with the character, ask questions about price and performance, and maybe even engage in a little small talk," says Brush. Other researchers imagine smiling Net cashiers who ring up purchases and Walt Disney characters talking to children about films, toys, and family problems.

No one has yet created a synthetic character that incorporates all human attributes, but research on pieces of the puzzle has made great strides.

"Lots of us have been working on separate parts of the equation," says Mauldin. "I've been focusing on language, while others have been doing speech recognition, and three-dimensional imaging. It's just recently occurred to us that we could put this all together to create a truly virtual being."

Research during the last few years at the Massachusetts Institute of Technology's Media Laboratory has focussed on virtual emotions. Silas, an animated dog which exists only in a computer, has been programmed *to react to outside cues.*

Anyone wanting to interact with Silas steps into a space that is filmed by a digital camera. The image is simultaneously projected onto a life-size screen where Silas appears.

On one occasion, Silas wagged his tail at a new visitor and then fetched his virtual ball. After a few minutes of play, he got thirsty and lapped some water out of his bowl. Later, when he was sent to the corner, he sulked off, head down and tail tucked.

Silas's emotional range is still limited. Any new visitor excites him, whether the person smiles or growls, or smells like a cat. He doesn't look or move like a real dog. Yet the game is so convincing that at least one participant felt guilty about sending him away.

Synthetic characters have also made huge linguistic advances. In the early days, glitches would quickly show up in conversations with computers. Take an exchange between the artificial intelligence software, Depression 2.0, made by IBM, and "Roger", as described in Sherry Turkle's book *Life On the Screen*:

Roger: I can't get along with my wife.
Depression: What has taken the friendliness out of you?
Roger: She does not make me feel loved. I want to be loved.
Depression: It must be nice to be so loved.

While exchanges as absurd as this one can now be avoided, virtual characters are still far from imitating life. "I've been trying to make Julia more convincing lately," says Mauldin. "She now makes typographical errors sometimes. But she still only fools about 70 per cent of people for five minutes or more."

To be more human, Mauldin says, Julia must acquire a more detailed understanding of life.

While Julia knows cats are domestic pets, and can "chat" about their antics, she has no idea how they function physically. She states cheerfully that she prefers cats to dogs, but is completely thrown when anyone asks how she feels about de-clawing. Getting Julia to understand subtleties will be a long, hard battle, says Mauldin.

The first commercial applications for virtual beings will probably use animated characters.

"Acceptance by the public will depend on whether or not they think they're being fooled," says Bruce Blumberg, Silas's trainer at MIT.

Julia's experience on the Net is instructive. The computer user who asked whether Julia loved him let loose a storm of foul language when he belatedly discovered he was conversing with a machine. Yet Julia took it all in good humour, responding: "I'm not into geeks" and "Please don't swear – it upsets me."

Julia's ability to take the insults in her stride gives researchers confidence that synthetic characters will be *widely accepted.* "Virtual humans may not be perfect, but they do have their good points," says Brush of IBM.

"They don't get tired of being asked the same question all the time – they are always available, and they can be programmed to always be in a good mood."

Cyber sightings

● Step back from the details of tomorrow's presidential election in the US with Kampaign 96 (*www.sacbee.com/smile/kampaign96/kampaign_index.html*) and its summary of the best – and funniest – comments during the past months, organised into handy sections such as "Sex Scandal No 2".

● Anyone involved in the metals industry should look at the frames-based metalnet (*www.metalnet.co.uk*), set up by the Metal Bulletin. A free 30 day trial gives access to daily prices for iron, steel and precious metals and full prices from the London Metal Exchange, news from Russia and Japan and country risk ratings from Dun and Bradstreet. The full subscription price of $1,200 (£736) a year gives access to the Bulletin online.

● Budding investors can hone their stock-picking skills at Final Bell (*www.sandbox.net/finalbell/*), where trades at closing prices can be made with a free – but virtual – $100,000. Only US shares, though.

● The Bermuda Stock Exchange (*www.bsx.com*), which offers prices, company contacts and news, is trying to attract new business, using its new designation by the US regulator SEC as an offshore securities market.

● Debates in the Mother of all Parliaments are finally on the Net, courtesy of Hansard, the Westminster scribes. Proceedings from both the House of Lords and the Commons can be found at *www.parliament.the-stationery-office.co.uk*

● Choosing spectacles usually involves a mirror, but at the site of Dollond and Aitchison (*www.danda.co.uk*), the UK optician, users can build up their own face on the screen and the system provides recommended frames. It will even tell you where your nearest branch is, and includes a screensaver designed to cut down on eye strain.

● The Travel Information Service (*www.tiss.com*) has teamed up with London travel agent Flightbookers to sell plane tickets. Locating times and prices is easy, but travel agents shouldn't worry: finding a spare seat proved impossible.

● UK bookseller Waterstone's (*www.waterstones.co.uk*) have decided to accept all the late entries for their Book of the Century competition after last week's listing here.

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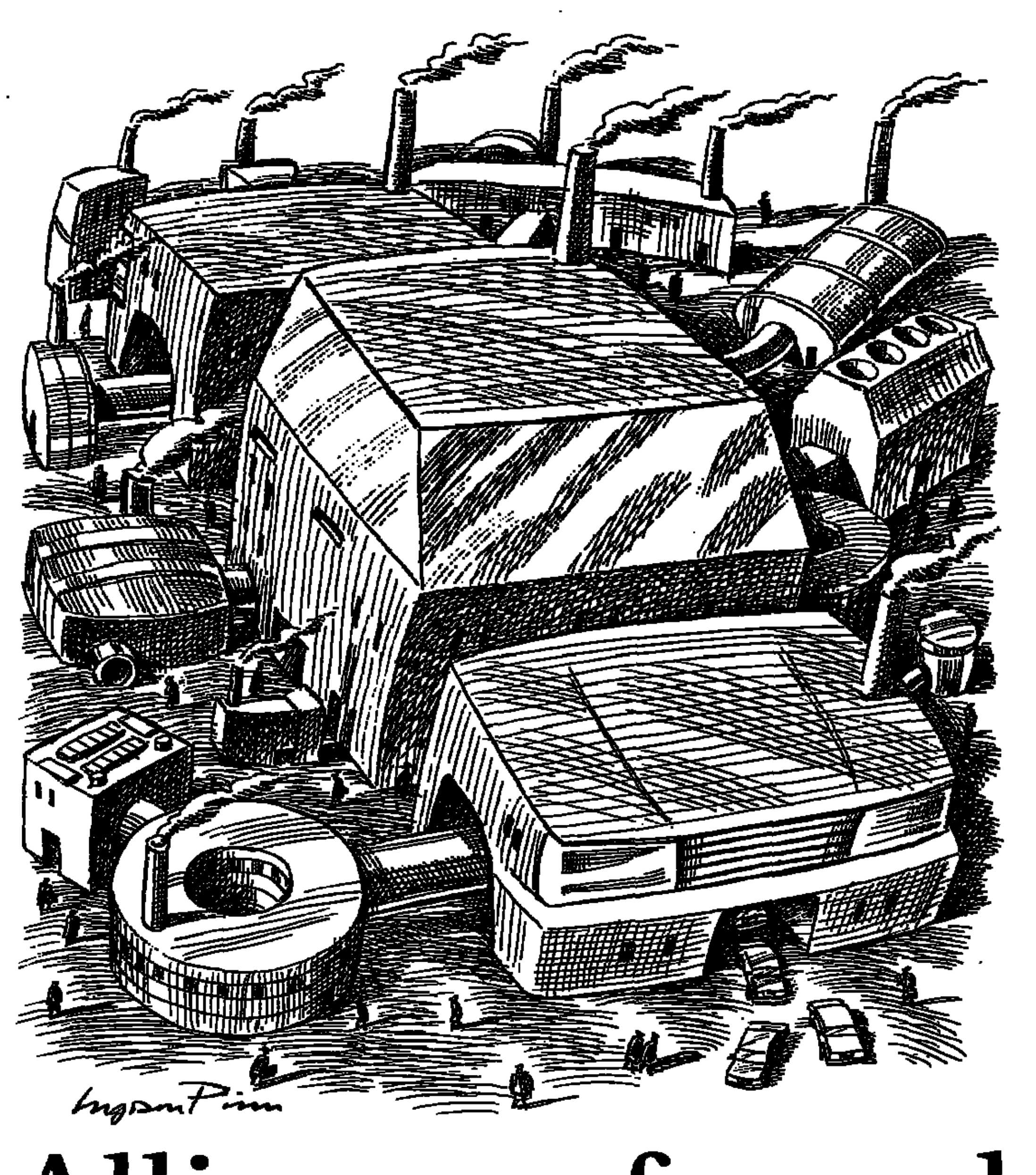


Alliances forged in the factory

Carmakers and component suppliers are pioneering techniques for working side by side, says Haig Simonian

There was a time when south American presidents put attending military parades above opening new factories. More recently, however, inaugurating car plants has become one of the most frequent public engagements for regional heads of state.

On November 1, Fernando Henrique Cardoso, president of Brazil, cut the ribbon at Volkswagen's new bus and truck plant in Resende, 150km from Rio de Janeiro. Only a fortnight earlier, he did the honours at another VW plant, this time for engines, at San Carlos in Sao Paulo state.

Brazil is not the only country where the motor industry is building plants aplenty. In September, Vaclav Havel, president of the Czech Republic, was guest of honour at a shiny new assembly plant for Skoda, a VW subsidiary, at Mlada Boleslav, north of Prague. Next month, Carlos Menem, the Argentine president, will do the honours at Fiat's new facility in Cordoba.

The new factories may be oceans apart, but together they represent an entirely novel approach to making cars. Unlike traditional plants, where component suppliers ship in thousands of parts a day, in the new factories the carmaker and its suppliers work side by side.

Co-ordinated production in the motor industry is nothing new. A decade ago, Japanese car companies mastered the art of "just in time" deliveries: many of their techniques have since been mimicked in the west. What distinguishes the new breed of factories, however, is that component suppliers actually make their products and, to a greater or lesser extent, fit them to vehicles on site.

Such close links between vehicle makers and suppliers make sense for carmakers struggling to cut costs. Components account for about 60 per cent of the cost of new car. Yet the component makers have traditionally shared relatively few of the risks of a new project.

The carmakers, by contrast, whose badge the finished vehicle bears, have to shell out for fixed investments such as factories and capital equipment and for variable costs, such as labour – all in return for mixed prospects in the marketplace.

Carmakers increasingly believe that is a poor deal. Almost every significant new vehicle plant now under construction involves a greater involvement by suppliers than in the past.

In the new assembly hall at Mlada Boleslav, six important component suppliers have been allocated special zones adjacent to the production line to pre-assemble parts just before they are required on the new Octavia saloon. The architects of the airy new hall deliberately twisted the normally straight assembly line into a U-shape to locate the suppliers' zones just where their parts have to be fitted on to the Octavia. Another advantage of the curved production line is that it allows all the component makers' zones to be situated along the exterior walls of the hall, permitting direct truck access from outside.

The new facility has cut shipping times and working capital, says Volkhard Köhler, Skoda's finance director. Lucas, the UK components group which makes the Octavia's rear axles, used to bring in its parts from Bratislava. Siemens and Allibert, the German and French components groups behind the dashboard, are transferring production from a factory 40km away. Mr Köhler calls the new assembly hall "the plant of short distances".

Modular production is being extended further elsewhere. At the new factory taking shape in eastern France for the Smart, the unconventional two-seater being developed by Mercedes-Benz and the SMH watches group, suppliers play an even bigger part in manufacturing.

Some 10 companies will pre-assemble important sections of the vehicle either within the Hambach plant or at their own linked facilities in "smart ville", an industrial park alongside.

Steel bodies will come from Magna International, the Canadian group. VDO, the German automotive electronics maker, will build fully assembled cockpits, including the instruments, while another German components specialist, Ymos, will make complete door assemblies, including trim, window winders and glass. Together, the 10 companies have invested FFr1.5bn (£180m) to get Smart production started by late 1997.

Micro Compact Car, the joint venture between the Smart's German and Swiss backers, argues that only by spreading the financial risks to suppliers could such an innovative and untried vehicle have gone ahead. MCC believes using pre-assembled components will let it build the, admittedly small, Smart in just five hours – less than half the time for a conventional small car.

"The Smart factory in Hambach will attract many colleagues from other automotive manufacturers throughout the world on benchmarking expeditions," claims Jürgen Hubbert, the Mercedes-Benz board member responsible for passenger cars.

However, it is at Resende that modular construction is being refined to the utmost. Like other new plants, including VW's own Pacheco works in Argentina, opened by President Menem last year, Resende involves a high degree of co-operation with suppliers. The latter are also helping to foot the bill. About 35 per cent of the fixed costs have been met by component companies, says José Ignacio López, VW's head of purchasing and production optimisation.

But unlike the other new car plants, Resende will be managed by VW and its suppliers under a profit-sharing "consortium". Details of the financial arrangements are sketchy. By contrast, it is already known that suppliers will make parts on site and fit them directly on to vehicles. Only about 20 per cent of the 1,400 people who will eventually work at Resende will be VW employees: the remainder are all on the suppliers' payrolls.

VW's main responsibilities will be quality control, sales and marketing, says Mr López. Quality is a top point. Many executives believe modular plants represent the future for the motor industry. But some are worried about leaving so much to suppliers when the final product is so clearly identified with the carmaker.

Mr López, the man most closely identified with the new breed of factories, has no qualms. He claims quality will be guaranteed by making employees more responsible for their work. The tool is the "Meister" – a sort of master craftsman – who will take overall responsibility for a function or entire vehicle.

"The secret is the people. It is important for them to feel ownership of the product," he says. "Each Meister signs off his work personally, like a craftsman with a Stradivarius. The product is his baby."

Mr López claims Resende's quality is streets ahead of other plants. Based on VW's internal quality scale, in which 0 represents perfection, he notes: "The average quality for building buses and trucks is about 600 points. The best plant in the industry scores 500. Our target at Resende was 400. We achieved 83."

So fully has the Resende concept proved itself that Mr López says VW will soon announce a new DM1bn (£400m) car plant in Brazil based on the same principle. The factory, to build the next-generation Golf/Vento and the new Audi A3 hatchback, will have the capacity to build 200,000 cars a year, compared with the 30,000 trucks and buses due from Resende, he says.

But while Resende and its successor may be breaking new ground in sharing responsibilities with suppliers, "empowering" production workers is a leitmotiv of all the new plants.

At Mlada Boleslav, for example, a grandiosely named "information spine" runs between the two arms of the assembly line. Apart from the usual meeting rooms and display boards, it contains space for customers to see their cars being built and to discuss faults – driving the quality message home.

Mr López calls the new Czech facility an "evolutionary" plant, compared with the "revolution" at Resende. Other industry executives suggest Resende's radical approach may be most suitable for greenfield factories, while change has to be introduced more gradually when extending an existing facility, such as Mlada Boleslav, where traditional labour relations and carmaking methods are ingrained.

Significantly, Mr Gerald Weber, the VW engineer largely behind the new Octavia plant, was recalled to Germany earlier this year to run the group's giant Wolfsburg facility.

The plant, which is the biggest in Europe, is also reputed to be the continent's least efficient. The idea, presumably, is that while Mr López pioneers his new production techniques in virgin territory such as Resende, others, like Mr Weber, will take his message to the less pliable ground of older plants.

Brendan Corr

Family affair: Sharpe (right) is married to Whelan's daughter

PARTNERS

JJB Sports

David Whelan, 60, a former footballer with Blackburn Rovers, bought JJB Sports, a single Wigan sport shop, in 1971. Duncan Sharpe, 36, joined the company in 1985 and, one year later, married Jane, David's daughter. They now have 148 stores throughout the UK and an annual turnover of £140m.

Duncan: "I was a professional golfer when I met Dave. I'd been dating his daughter, Jane, for three months and after she'd introduced us, he turned to her and said: 'He's got his head screwed on, that lad.'

Two hours later, he'd offered me a job as area manager. He made it clear that if things didn't work out with Jane, he'd still employ me. Dave's very fair like that.

In his footballing days he was nicknamed 'The Tank' because he was so aggressive on the pitch. He's got the same reputation in business, although being his son-in-law I get to see a softer side.

I look after purchasing, everything from footwear to the football replica products, and Dave concentrates on site acquisitions and strategic development. He knows everything about the business, so from time to time he'll come and look over a new range.

He's one of those people who lives life to the full, everything is done with great gusto. Some people find him a bit blunt because he pulls no punches. He once said to a guy with BO in the office: 'Do you never use a spray under your arm?' The guy was quite upset at the time. Let's say if you turned up to work with a boil on your nose, Dave would be the first to point it out.

We share a lot of the same philosophies and both believe in encouraging the staff to keep fit. Neither of us likes too many overweight people in the company because it's not good for our image."

David: "Duncan had no business experience, but he was a golfer and golfers are, on the whole, sensible people. It's a game of discipline with very strict rules, so I knew he was dedicated to be playing professionally at such a young age.

He's a very honest lad, very able, which is one of the reasons why I wanted him to join the business.

I had to teach him the basics as we went along, like buying right, selling right and keeping your overheads down. He'd never worked in retail before, except in his father's grocer's shop, but he learned quickly.

Like everyone he made mistakes. If a buyer never makes a mistake, then something's wrong, the key is not to make the same one twice. I now leave the purchasing to him, although I like to stick my nose into the selections, because a company dies or survives on its stock.

I keep my fingers in as many pies as I can, from the warehouse deliveries, to shop buying, although Duncan now does a bit on the property side.

He's a brilliant partner, except he's too kind. You have to have a ruthless streak and he hasn't got that yet. It'll come in time because it's necessary, particularly where hiring and firing are concerned. You have to be realistic and see who's doing their job well and who's not, and at the moment Duncan would rather leave that up to me.

It's a bonus that he's my son-in-law. I've got continuity and total commitment which is comforting.

Fiona Lafferty

Must try harder at the meaning thing

Lucy Kellaway

You would have thought that Sainsbury had made a loss of £393m rather than a profit to hear the way everyone was going on last week. Nice patrician David Sainsbury was savaged on the *Today* programme as if he had been involved in some dishonourable cover-up, whereas all he had done was dither a bit before introducing one of those awful loyalty cards.

The analysts and consultants could not restrain themselves: "there is a very big problem out there"; "no one knows how to make decisions"; "Sainsbury has never been a tremendous innovator strategically."

I would hate to be an apologist for Sainsbury: the queues are legendary, the trolleys often broken, and its public relations department is one of the most arrogant in the land. However, things need to be kept in proportion. It still makes a great deal of money and has higher margins than anyone. It is just that Tesco, which used to be unspeakable, is now much improved.

While Sainsbury should do something about its queues and trolleys etc, last week's attack does not seem the way to ensure it. The company felt forced to offer the braying investors something concrete, so it has brought forward some board changes. I have no idea whether these will do the trick or not. What is needed is for Sainsbury to try just a bit harder generally. And unfortunately trying harder is invisible. It is not a quick fix that you can show to angry investors.

Some 60 employees of the legal department at Dow Corning have spent much of the past year attempting to develop their inner selves. They have been attending seminars, writing autobiographies, keeping diaries, and seeking spiritual fulfilment in solitude and meditation. One expects this sort of thing from the Body Shop, Ben & Jerry's, Southwest Airlines, and the handful of other and often-quoted New Age companies. But according to Strategy and Business, the magazine of Booz Allen & Hamilton, the meaning thing is catching. Apparently 24 per cent of the adult population in the US crave more idealistic and spiritual values, and various hitherto strait-laced companies seem to be toying with spirituality.

For my part, the only meaning I want at work is from the job itself: liking the job and taking a modicum of pride in the newspaper is all the spirituality I can take. In any case keeping a journal would without doubt make me feel *less* meaningful. Take today, for example. *Thursday 31st October: Woke up. Raining. Got train to Moorgate. Went swimming. Got to work. Chatted, worked. Had prawn sandwich and KitKat for lunch. Worked, chatted. Went home.*

Still, it is all very well to sneer. Of all the nasty jobs, being a lawyer at Dow Corning must be among the nastiest. If I spent my day fighting off lawsuits from tens of thousands of people upset about their breast implants I'd be grateful for any comfort I could get.

If you get a letter marked "private", you might expect it to be a job offer, a written warning, a love letter . . . or a begging circular from the Labour party. Tony Blair has just done a national mail drop of fundraising letters, all of which are marked "private". As the letter is a reiteration of his stirring, moving speech at the party conference one might think the contents were rather public. The effect of a letter on Blair's personal stationery is lost when you see it says Number 94069.

Tony Blair is not alone in fondly believing that the "private" trick will work. Last week a package came into this department marked STRICTLY PRIVATE AND CONFIDENTIAL. Inside was a press pack and invitation to a seminar on leadership development and organisational renewal. I expect the management training organisation concerned would love to get a mention of their name in the newspaper, but as they marked all their anodyne material "confidential", I don't feel able to oblige.

Last week the mower and the microwave both packed up. The mower, which dates from the 1950s, can be mended. I know a mechanic who will do the necessary, and fully expect it to be cutting my grass well into the next millennium.

The story with the four-year-old microwave is quite different. Certainly it can be mended, but by the time you have paid the callout charge plus VAT, waited for the spare part to arrive, and paid to have a man return to fit it, it would be cheaper to buy *new and send the machine to join* those millions of other needlessly obsolete appliances in white-goods heaven.

BUSINESS EDUCATION

Insead is refocusing its strategy in a substantial growth programme, says **Della Bradshaw**

American mastery in Paris

In 1959 Insead was set up in Fontainebleau, just outside Paris, based on American know-how and American teaching principles. Today, the business school is in the throes of rebalancing its activities and implementing its biggest expansion programme since that time. And it is using American fund-raising techniques to do it.

Dean Antonio Borges envisages a school structure much more in line with Insead's US rivals, with 20 per cent of income made up of corporate and individual donations – double today's 10 per cent figure.

And he plans a far greater commitment to research. "We're moving a bigger share of our effort into creating knowledge, which is important for our survival," says Borges. "If you're not a knowledge creator you don't have any advantage over your competition."

The funds will enable the school to increase academic staff and expand its research base while at the same time putting the brakes on the growth of executive education – today's cash cow.

The money is already flooding in from the five-year fundraising drive launched a year ago. One third of the FFr700m (£88.6m) which the business school needs is already in the bank.

"Fund-raising does have a place in Europe. There is enormous goodwill to support us," proclaims Borges, who has garnered funds from Europe, the US and Asia. "That's the most encouraging thing for a dean."

In a parallel move, employer and student demand has persuaded Insead to increase the number of students on its flagship master of business administration (MBA) course. Today's figure of 486 is expected to rise by 30 per cent.

Borges is uncharacteristically reserved when it comes to predicting the eventual size of the school. "We're relatively small compared to our competition in the US. But some of the larger schools are not examples we would wish to follow," he points out. "On the other hand, if we can manage this growth and maintain our core values, if things fit together properly, we would be happy if we managed to recruit another 30 to 40 professors over the next five years."

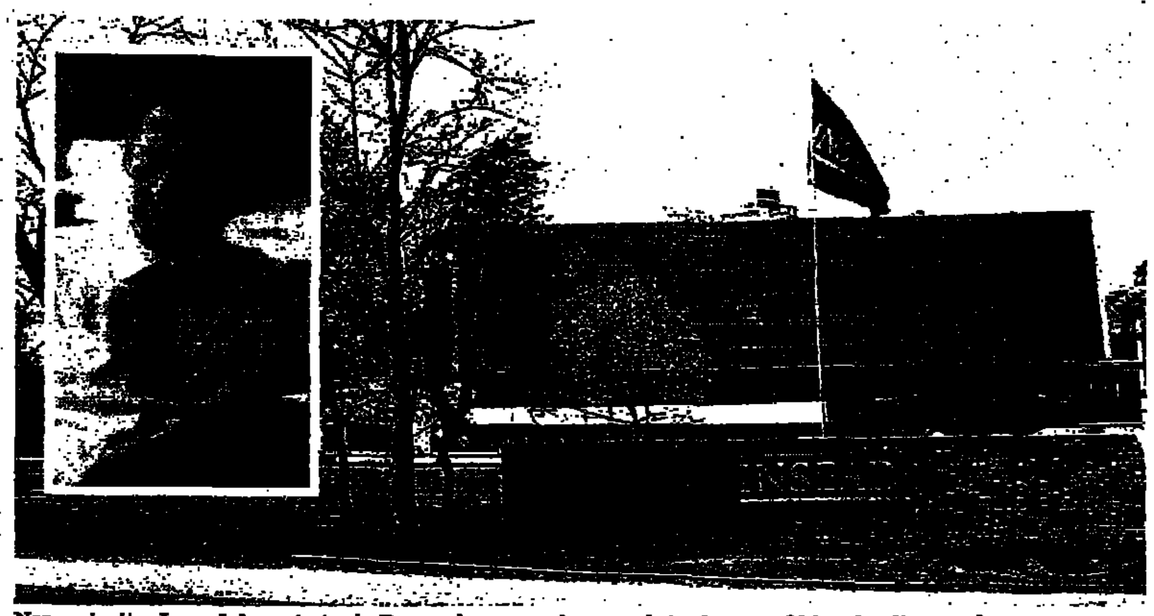
Those 30 to 40 professors would be in addition to the 13 already employed for this academic year. The numbers were limited to achieve managed growth, says Borges. "You cannot recruit 30 professors in one year, it would be the end of Insead as we know it."

Managing the growth, he believes, will be the most difficult thing to achieve. New faculty are initiated through the elective, or optional, programmes on the MBA course, where there are fewer students per group and where the faculty can teach in their area of strength. Only after observing some of the core subjects being taught will they be permitted to teach on the foundation programmes.

Although in many ways Insead emulates the US paradigm, Borges is insistent that his school has its own distinct culture and teaching style. "There is not a single unique model of management. Managers are interested in what we have to say now."

In some areas Insead can often outshine the top US schools, he argues. Its purpose when it was set up nearly 40 years ago was to be an international business school for Europe. This is something which American schools are still struggling to achieve.

While Borges believes Insead can compete on a par with the best American schools, he is dismissive to the point of arrogance about Insead's rivals in Europe. Insead, he believes, is peerless. "Our position in Europe is a lot more lonely that the position of any US school in the US."



New priority: Insead dean Antonio Borges has moved research to the top of his school's agenda

NEWS FROM CAMPUS

Modular study for New Zealand MBAs

Executives in New Zealand who cannot take time off to study for a full-time master of business administration (MBA) degree will be offered a more manageable option from February.

The University of Otago in Dunedin has devised a modular version of its 16-month MBA. The new course requires 10 weeks of full-time study during each of four consecutive years.

University of Otago: New Zealand, 3 4798045.

Social responsibility steers a new course

A surprisingly large number of business school alumni become involved with non-profit making ventures, often as board members. To help them carry out their duties, Harvard Business School has instituted a two-and-a-half day programme, Governing for Non-Profit Excellence: Critical Issues for Board Leadership.

The first programme will run in December.

Harvard: US, 617 495 6226

Russian cultural barriers tumble

The World Bank is sponsoring a six-day seminar in Moscow to increase the effectiveness of western consultants and trainers there.

The December workshop will bring Russian and western faculty and business people together to unravel the logic of Russian managerial practices and develop guidelines to reduce misconceptions. Organiser for the seminar outside Russia is Umist in Manchester.

Umist: UK, (0)161 200 3461

Raising a glass to qualifications

The regular refrains of "Last orders" and "Time, gentlemen, please", well-known to British boozers, could soon be delivered with more panache. Scottish & Newcastle Retail has embarked on a £1.5m project to improve customer service in its 1,600 managed pubs in the UK. Employees will be rewarded with National Vocational Qualifications.

CONFERENCES & EXHIBITIONS

LANGUAGE COURSES

Patrick Harverson · Sport

Most bourgeois of games polishes discreet charm

Is it possible that golf, the most bourgeois of sports, is finally becoming fashionable?

It may seem implausible, but the evidence is mounting, especially in north America. A handful of venerable film and rock stars – Bob Dylan, Neil Young, Dennis Hopper and Dustin Hoffman – admit to being avid players of the game. Some big-name fashion designers have started to produce new clothes for the golfer who does not want to look like Peter Oosterhuis circa 1974.

A US television commercial for beer shows a group of Generation Xers playing golf while discussing obscure 1970s rock bands. Hollywood has produced a film about the game – Ron Shelton's *Tin Cup* starring Kevin Costner and Rene Russo – that manages the not inconsiderable feat of making golf seem sexy.

And, perhaps most important of all, golf has a new pin-up in the form of Tiger Woods, the charismatic 20-year-old Asian-African-American rookie who sports a Nike baseball cap and a wide, toothy grin while casually devouring America's best courses and its best golfers.

There is also some evidence of a change in the zeitgeist in the UK. The other night a guitarist from the fringes of the Britpop scene drunkenly confessed to me his darkest secret: he and a few friends had begun to play golf regularly.

He said they liked the Zen-like qualities of the game, the aesthetic attractions of neatly trimmed fairways and closely cropped greens, the formal, old-world standards of etiquette, and the internalised nature of the competition – the fact that a golfer does not compete with his opponent but with himself. For those in pursuit of play who did not want to get sweaty, muddy or kicked around a field by thugs in studded boots, golf was *the* game, he said.

Yet, can golf genuinely transcend its image as the most unfashionable of sports? It will take more than a few endorsements from ageing rock stars or budding pop stars to convince young people to turn in large numbers to the game of short, sensible haircuts and long, insensible trousers, of nice Nick Faldo and purring Peter Alliss, of "You can't go in there sir, you're not wearing a jacket", "You can't go in there madam, you're a woman", and "You can't play here sir, you're Jewish.".

However, the exclusionary, sexist and snobbish side of golf may be on the wane. The ugly face of the game was on show last month when a British club banned a mother and her adopted son from playing in the annual competition for families because he was adopted.

The story prompted the usual crop of "Why I hate golf" articles, but not only did it have a happy ending – the mother and son team was quickly reinstated – but the club felt so contrite that the officious secretary who had tried to ban the duo was suspended from his position.

These days, more and more golf clubs are realising they can no longer afford to shut their doors to the non-member, the non-white, the non-golfer.

A few weeks ago I played an enjoyable round at a new British course in Surrey called Duke's Dene. Wentworth it was not, but the course was beautifully kept, the clubhouse smart and comfortable without being ostentatious and the green fees for non-members were just £15, a bargain given the quality of the course. Most remarkably, the club also had a crèche.

The people behind Duke's Dene are among a new breed of course owners and operators who are moving away from the exclusive, costly membership structures that have limited the game's appeal for so long, to a more flexible policy of "pay-to-play". By allowing anyone to turn up and play at well-maintained courses for a relatively modest green fee, they hope to overcome golf's image as an expensive, elitist sport.

The game has little choice but to adapt. While the number of courses in Britain has risen to 2,450, the number of active golfers has remained static at about 3m. The lack of growth in demand has been blamed primarily on the high cost of playing golf, and the failure of the game to attract new, especially women, players.

Yet there is a huge potential market out there to be tapped. A recent study found that 45 per cent of British adults had an interest in golf but only 5 per cent regularly played. If golf can become affordable, even fashionable, then there is hope for the old game yet.

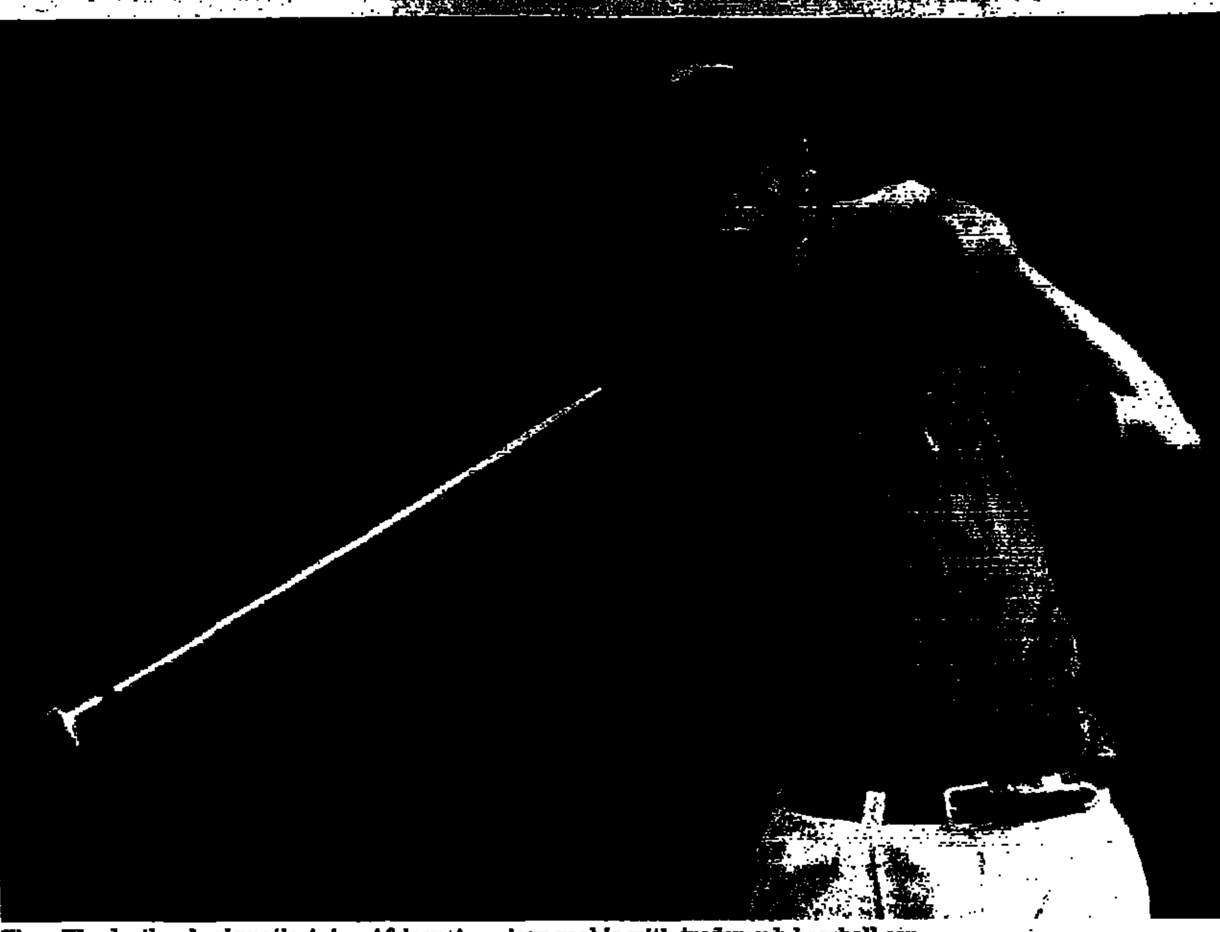
■ With a growing number of sports clubs owned by stock market quoted companies, it was not going to be long before the clubs discovered an obvious way to motivate their expensive playing talent: offer them share options.

Professional sportsmen may not be renowned for their financial acumen, but they can understand the basic idea that the better the team performs, the higher the share price of the parent company will go and the more their share options will be worth when the time comes to cash them in.

Thus, Loftus Road, the recently floated owner of two west London sports franchises, has awarded Lawrence Dallaglio, captain of its Wasps rugby team, and Stewart Houston, manager of its Queens Park Rangers football team, 50,000 share options each.

At the same time, Sheffield United, the Yorkshire football club soon to be taken over by the publicly-quoted Conrad group, has pledged to offer its players share options when the deal is completed. Players and managing staff at Manchester United and Tottenham Hotspur, whose shares have almost trebled in value during the past year, must be wishing they had been afforded the same opportunity. Maybe they soon will, and a trend towards awarding players share options will be firmly established. It would certainly make the post-game interview a little bit more interesting.

"Well Brian, I'm over the moon about scoring the winner against City. That puts us into the Cup Final and should push our shares up to £5 when the market opens tomorrow. Seeing as how I've got options to buy 100,000 shares at £2 each, I'm quids in. "So, what are you going to spend the money on, Gary? A pub?" "Nah, are you kidding? I've got my eye on some Nikkei warrants that look cheap."



Tiger Woods: the charismatic Asian-African-American rookie with trademark baseball cap

Colin Amery · Architecture

Funds flow to the Kennet and Avon canal

In many countries government spending on the arts is under harsh review. But in the UK the extraordinary success of the National Lottery is helping cultural life in ways that would once have seemed impossible. It is less than two years since the Lottery began but already grants to the value of some £328m have been announced.

Fortunately Lord Rothschild, the chairman of the National Heritage Lottery Fund, and his trustees take a very broad view of what constitutes "heritage". Their largest grant was announced last week: some £25m to fund the complete restoration of the Kennet and Avon canal that runs for some 87 miles across three counties – Avon, Wiltshire and Berkshire.

There has always been a strong canal lobby in the UK but to get a grant of this scale it was not enough to be enthusiastic. A partnership had to be formed to bring together the local authorities and the private sector businesses on the waterside as well as British Waterways (which owns the canal) and the Kennet and Avon Canal Trust. These are the bodies that will raise the necessary £4m in extra funds.

It is right to call the canal a "corridor of heritage". In many ways it and the other great canals of the 18th and 19th centuries are the neglected arteries of the nation's history. Their importance is increasing as they give access to quiet countryside away from the crowded motorways and shopping malls.

The particular qualities of the Kennet and Avon canal go back to its designer and engineer, the great John Rennie. He completed the canal in 1810 and linked it to the River Kennet navigation and to the Thames and Avon rivers. He was responsible for three of its very best features: the Dundas and Avoncliff aqueducts built in neo-classical style and the extraordinary flight of some 29 locks at Devizes in Wiltshire that carry the canal up Caen Hill.

The canal was built to link the west coast docks at Bristol to London but it was soon to be superseded by the opening of the Great Western Railway in 1846. There are some 160 listed buildings on the canal but equally important are the simple stone bridges and the multitude of locks.

Its banks, furthermore, are reasonably undisturbed habitats for aquatic and waterside life. There are otters and dragonflies, voles and reed warblers – all unknowingly occupying their Sites of Special Scientific Interest.

Another beneficiary of the latest round of grants is of such rare architectural and historical merit that few people will have heard of it.

The Royal Gunpowder Mills at Waltham Abbey in Essex closed only in 1991 – having been founded in 1665. They have never been seen by the public. In the woods on the site are 21 listed buildings. This is the place where most of the cordite used in the mass slaughter of the first world war was made. With the help of a £6.5m grant, it will become not a museum but "an interpreted industrial site". It is at present occupied by the largest heronry in Essex.

The importance of these two big grants will be to secure the UK's industrial heritage with funds that match the scale of those used to preserve great country houses and estates.

Sustaining the architecture and landscape of industry is of genuine educational importance, providing it does not overshadow the present or prevent investment in the industrial future. The Lottery funds are the best source of money to democratise the heritage business.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Abbey National Treasury 8¾% Nts 1998 £825.0
Albany Inv Tst 1.6p
Arabis 0.45p
British Petroleum 5p
City Site Estates 5¼% Cv Rd Pf 13.125p
CrestaCare 0.3p
Enterprise Oil 6.5p
Furlong Homes 1.4p
Golden Hope Plants M$0.11
Gowrings 1p
Gradus 1.8p
IAF 4.5p
Jackson 0.7p
Macro 4 15p
Manders 3.1p
Morrison (Wm) 0.325p
New Zealand 11½% 2008 £281.25
Pittards 0.75p
PizzaExpress 2p
Quayle Munro 7p
Shell 14.4p
Usher (Frank) 7p

■ **TOMORROW**
Canadian Pizza 2.4p
Eksportfinans 7½% Nts 1997 C$77.50
Guinness 4.55p
HTR Inc & Grwth Split Tst 1.8p
Intermediate Capital 4.8p
Osaka Gas 4.95% Nts 1999 Y495000.0
PCT 2.7p
Royal Doulton 2.25p
Rubicon 3.8p
Unicorn Int 2.05p
Wellington 2.7p

■ **WEDNESDAY NOVEMBER 6**
Abbott 0.64p
Amey 3p
Courtaulds 6% 2nd Rd Pf 2.1p
Henderson American Cap & Inc Tst 1.8p
Inspec 2.1p
Inv Tst of Guernsey 0.725p
Lawrence 5.56p
Lendu 0.4p
Lincat 5.5p
Oasis Stores 2.1p
Vodafone 7¾% Nts 2001 £35.66
Whitbread 7¼% Un Ln 1995/99 £3.625

■ **THURSDAY NOVEMBER 7**
Bradford & Bingley Bldg Scty FRN Feb 1999 £149.25
Bristol & West Bldg Scty 13⅝% Perm Int Brg £66.875
Conversion 9¾% 2001 £4.875
Conversion 9¾% 2003 £4.875
Forth Ports 4p
Goodwin 17.94p
Govett Emerging Mkts Inv Tst 0.5p
Healthcall 1.65p
Hemingway Props 0.165p
Mazda FRN Nov 1996 Y24597.0
Rentokil Initial 1.48p
Southern Newspapers 13.25p
Steel Burrill Jones 0.75p
Zeneca 12.5p

■ **FRIDAY NOVEMBER 8**
American Express $0.225
Billam 2.2p
Calor 6p
Cape 3p
Charter 8p
Chelsfield 1.2p
CRH IR3.08p
Dewhirst 1.15p
F & C Pacific Inv Tst 0.8p
Healthcare Operators Class B Mtg Bckd FRN 2021 £202.96
Isotron 3.76p
Johnston Press 0.75p
Mirror 1.35p
Nihon Doro Kodan 8⅝% Gtd Bd 1996 $443.75
Nottingham Gas Anns £1.625
Princedale 0.4p
Quarto 2.2p
Quicks 2.75p
Redland Int Fdg 15⅝% Gtd Nts 1996 A$153.75
Rexam 6.1p
Scottish television 5.5p
Secure Tst 6p
Tele-Cine Cell 1.8p
Tilbury Douglas 7p
Walker (Thomas) 0.625p
Watmoughs 2.75p
Weir 2.31p
Welsh Indl Inv Tst 4p
Wilson Bowden 3p
Woodchester Invs IR3.16p
Yorkshire Food 0.88p

■ **SATURDAY NOVEMBER 9**
Halos 8¾% Db 2018 £4.1875
Int Bank for Reconstruction & Dev 11½% Ln 2003 £5.75

■ **SUNDAY NOVEMBER 10**
Inchcape 8¾% Cv Sb Bd 2008 £31.25
Tokyo Dome 5.35% Nts 1996 Y535000.0

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Lincat Group, Station Road, North Hykeham, Lincoln, 10.30
Trafford Park Estates, Neil House, Twining Road, Ashburton, Trafford Park, Manchester, 12.00
Wetherspoon (JD), Hamilton Hall, The Broadgate Centre, Liverpool Street Station, E.C., 3.30
BOARD MEETINGS:
Finals:
Associated British Foods
Interims:
Blacks Leisure
Capital Gearing Tst
Shoprite
UMECO

■ **TOMORROW**
COMPANY MEETINGS:
Dunton Group, Exchange House, Primrose Street, Broadgate, E.C., 10.00
Five Oaks Investment, Savoy Hotel, Strand, W.C., 10.30
Industrial Control Services, Pontlands Park Hotel, West Hanningfield Road, Great Baddow, Essex, 11.00
Invesco Convertible Tst, 11, Devonshire Square, E.C., 12.00
Lendu Hldgs, 3, Clanricarde Gardens, Tunbridge Wells, Kent, 12.30
BOARD MEETINGS:
Finals:
Bellway
Cooper (Frederick)
Creston Land & Estates
Lowland Inv
Stratagem
Interims:
Anglian Water
British Airways
Dairy Crest
Mercury Asset Management
Powerscreen Intl

■ **WEDNESDAY NOVEMBER 6**
COMPANY MEETINGS:
Campbell & Armstrong, London Scottish House, 24, Mount Street, Manchester, 10.30
Community Hospitals, Insurance Hall, 20, Aldermanbury, E.C., 12.00
DCS Group, Armourers' Hall, 81, Coleman Street, E.C., 12.00
Foreign & Colonial US Smaller Cos, Exchange House, Primrose Street, E.C., 12.30
Isotron, Howard Hotel, Temple Place, W.C., 12.00
Thorpe (FW), Mere Road, North Moons Moat, Redditch, Worcestershire, 3.15
BOARD MEETINGS:
Finals:
MMT Computing
Northern Investors
Northern Venture Tst
UPF
Interims:
Charles Stanley
Luminar
Westbury

■ **THURSDAY NOVEMBER 7**
COMPANY MEETINGS:
Goodwin, Saxon Cross Hotel, Sandbach, Cheshire, 10.30
Melrose Energy, Royal Thames Yacht Club, 60, Knightsbridge, S.W., 12.00
Southern Newspapers, Bournemouth Highcliff Hotel, St Michael's Road, West Cliff, Bournemouth, 12.00
Thorntons, Assembly Rooms, Derby, 10.30
Verity Group, Brewers' Hall, Aldermanbury Square, E.C., 10.30
BOARD MEETINGS:
Finals:
Bibby (J) & Sons
Burton
Kwick Save
Smart (J) (Contractors)
Interims:
Boots
Cullens Hldgs
Hambros Insurance
Somic
Staveley Industries
Warner Howard
Yates Brothers Wine Lodges

■ **FRIDAY NOVEMBER 8**
COMPANY MEETINGS:
Dalgety Group, Centrepoint, 103, New Oxford Street, W.C., 11.00
Invesco Japan Discovery Tst, 11, Devonshire Square, E.C., 12.00
M.R. Group, Merchant Taylors' Hall, 30, Threadneedle Street, E.C., 10.00
Schroder Japan Growth Fund, 33, Gutter Lane, E.C., 3.00
Walker (Thomas), Grand Hotel, Colmore Row, Birmingham, 12.00
BOARD MEETINGS:
Interims:
English National Inv

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

Travel News • Roger Bray

Check-in takes off

Kerbside check-in is now available to business-class and first-class passengers flying with Lufthansa from Dusseldorf, Frankfurt and Munich. Travellers may ease the pain further by using a valet parking service, which is also on offer at four UK airports – London Heathrow, Birmingham, Manchester and Glasgow.

Nigeria alert

Don't drop your guard in Nigeria. Fraud against foreign business visitors is commonplace. The UK Foreign Office advises you should check the credentials of local contacts thoroughly and, if in doubt, contact the Nigeria desk at the Department of Trade and Industry in London (0171 215 4844). Violent street crime and armed robbery are rife in Lagos and many other places. It is not unusual to be harassed by police or soldiers and you should not travel outside cities after dark.

Stay connected

The Web spreads. Guests at the Peninsula Group's four-star Kowloon Hotel in Hong Kong may send E-mail direct from their rooms. Guests are allotted a personal address – automatically cancelled when they check out – which will also allow them to receive private messages.

Plugged in aloft

Relief is on the way for laptop users frustrated by the brief life of their batteries. American Airlines claims it will be ahead of its trans-Atlantic rivals when its first jets to be fitted with power points in first-class and business-class seats start operating next February. They will fly between London Heathrow and New York and Boston. The whole of American's UK-US fleet will be similarly equipped by the end of next year.

Confused of Dubai

Sheraton has opened a new hotel in the Gulf state of Dubai. Part of the mid-price Four Points chain, it has 250 rooms and 36 junior suites. Regular room rates range from \$177 (£109) to \$205. The hotel, which is five minutes from the airport, is nothing if not eclectic in style, with a British colonial interior, a health club incorporating Turkish baths, an "African-American theme bar and restaurant" and a choice of other eateries from Thai to Indian.

Tone deaf

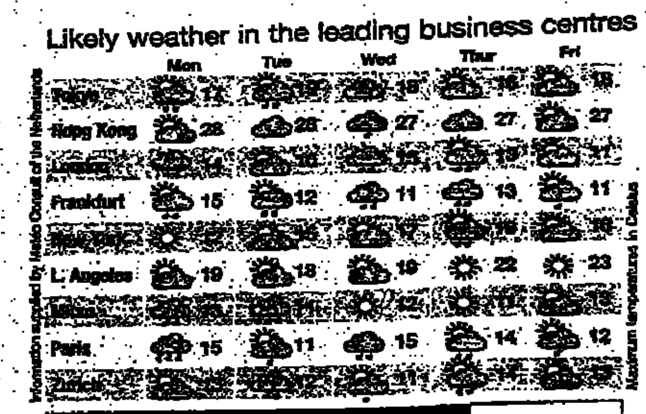
Be careful how you order soup in a Beijing restaurant. If you don't say the word *tang* in the right tone, you may get sugar. Chinese pronunciation is a minefield but Lonely Planet's new pocket-sized Mandarin Phrasebook (£3.99) covers most eventualities.

Non-stop flights

Northwest Airlines will launch non-stop flights between its main base at Minneapolis-St.Paul and Osaka next April. The decision comes with politics still holding up the opening of its proposed link between Seattle and Jakarta. Northwest wants to fly to the Indonesian capital via new Kansai airport.

After an earlier delay it had hoped to start this month. By cutting out the need to change aircraft in Japan, it would have reduced the existing flight time by up to eight hours.

But the Japanese government has so far refused permission despite the airline's claim that it has the right to go ahead under its historic, intra-Asia traffic rights.



Butt of opprobrium

Amon Cohen on the problems faced by smoking travellers

Smokers "have been added to the black-list of late-20th century pariahs, alongside paedophiles, rapists, drug pushers, tax collectors, traffic wardens, TV game-show hosts and National Health Service managers", says James Leavey, editor of The Forest Guide to Smoking in London.

Fed up with abuse from strangers for pursuing his habit in public, Leavey has written a guide that details exactly where visitors to London may and may not smoke. Business travellers will find particularly useful a section which sets out exactly when they can light up at London's airports.

However, as Leavey acknowledges, even where smoking is permitted, there are still problems. Is it, for instance, good manners to light up in a restaurant while people next to you are eating?

Such problems are magnified when one considers the question of smoking on aircraft. Many smokers find it extremely uncomfortable or even impossible to go several hours without a cigarette; on the other hand, about 50 per cent of air inside an aircraft is recirculated, so it is difficult to stop fumes spreading to the non-smokers.

Faced with this dilemma, more airlines are banning smoking outright. A recently extended British Airways smoking ban now covers 90 per cent of its seats, amounting to 1,000 flights a day.

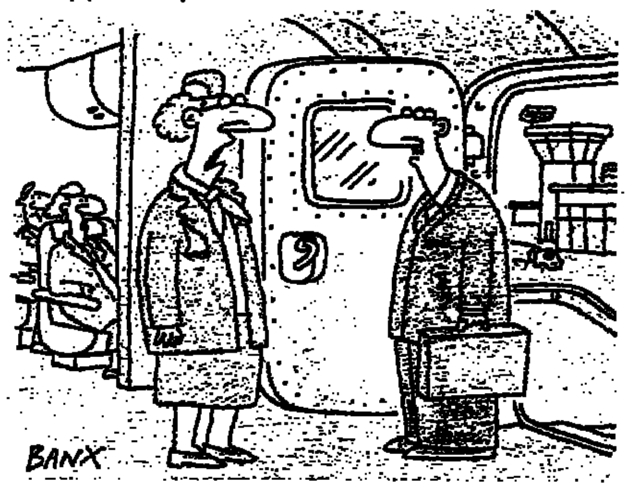
BA says the reason for the ban is simple. More than eight out of 10 passengers request non-smoking seats and the numbers are growing. Its figures correlate with the 1996 International Air Transport Association corporate travel survey, published this month. Of the 1,029 business travellers surveyed, 68.9 per cent said they would definitely like to see a smoking ban on all international flights.

The fact that prohibition is proliferating is bad enough, says Forest, the smokers' rights campaign behind the London smoking guide. What is worse, it says, is that information on which flights allow smoking is patchy and often inaccurate. Forest has received many complaints from members who thought they had booked a ticket for a smoking flight only to turn up at the airport and find that that it was banned. One member found that the ban on a route with two flights a day was switched from the morning to the afternoon departure without notice.

Forest recommends two courses of action. The first is to obtain written confirmation when booking a flight that the service does permit smoking. Should this turn out not to be the case, the document will strengthen a case for pursuing compensation – although whether this would oblige the airline to pay up has not yet been tested in court.

The second solution is to use a specialist travel agent. Forest refers members to Grosvenor Travel Management, which puts together itineraries that involve smoking flights as far as possible. In the case of Britons travelling long-haul, that often means flying with Air France via Paris.

For some destinations, smoking all the way is not possible. It is banned on all flights into Australia and New Zealand. "We can get them as far as Bali with Garuda Indonesia and then we explain that for the next six to seven hours, they will not be able to smoke," says Richard Turpin business account manager for Grosvenor.



Airlines, particularly those whose domestic market has heavy smokers, are also striving for solutions. Air France has banned smoking on most of its long-haul services but has instead installed special smoking rooms, with standing room only, where up to 12 passengers can puff away in peace. Air is pumped in at 200 litres per second and the noxious fumes are expelled directly out of the aircraft.

Marjorie Nicholson, a director of Forest, hopes that other airlines will heed the Air France example. She believes both groups can cohabit on flights if the ratio of fresh air to recirculated air in the cabin is increased. Nicholson contends that airlines discovered during the 1970s oil crisis how they could economise on fuel by reducing fresh air intake, which requires heating. Lack of fresh air, she says, means that tobacco smoke is only one of a number of pollutants spread around the cabin.

"You cannot see or smell the other pollutants which are also being recirculated," says Nicholson. "By banning tobacco smoke, you are effectively removing the early warning system that pollution could exist." With tobacco gone, she argues, airlines get away with reducing even further the amount of fresh air in the cabin.

Her argument cuts little ice with Action on Smoking and Health, the anti-smoking campaign. "What will solve the problem of tobacco smoke is banning it. Tobacco is a principal pollutant on board aircraft and one that can so easily be removed," says the group.

The other argument for smoking is that, like prostitution and abortion, it will always happen, so it should be made as safe as possible. Nicholson claims that the number of people caught risking fires by smoking in toilets has increased since many carriers introduced bans in 1992 and 1993.

As for the effect of smoking on cabin crew, Nicholson says: "It is the same as working in a pub. No one forces them to do the job. Are they there to provide a service for customers or not? Airlines should be approaching this as a management task. We want to see solutions that accommodate rather than discriminate."

Yet as anyone who has sat in the last row of no-smoking knows, it is difficult to separate smokers and non-smokers fully. I once checked in for Athens only to find that no-smoking was full. Four hours next to a smoker left me choking and flecked with ash.

If my neighbour could not travel for four hours without satisfying his nicotine craving, whose problem was that: his, mine or the airline's? The Air France smoking room, apparently working well, might resolve this dilemma. Otherwise, one has to ask whether both smokers and non-smokers can truly be accommodated on the same flight. If the answer is no, then airlines will continue either to fudge the issue or to side with the non-smoking majority.

The creature comforts of the bourgeoisie

Kiev communism is giving way to Paris cuisine, says Roger Bray

Ukraine's official immigration document, handed to travellers as they arrive at Kiev's Boryspil airport, looks nothing more than a promotional leaflet. It carries colour advertisements for two Kiev casinos, a restaurant, a hotel and three airlines.

Understandably, business visitors sometimes scrawl on it or throw it away. Don't. You may have trouble leaving town without it.

A marriage of convenience between the old bureaucracy and Ukraine's new entrepreneurism, the immigration document encapsulates the country's stuttering emergence from Russian domination and communist authoritarianism to independence, and the daunting challenges of the free market.

Tensions with Russia, the tenacity of communist hardliners, roaring inflation and local resistance to competition from the west have made for a slow start to Ukraine's emergence from its shell.

While joint ventures have sprung up in the restaurant business, providing excellent cooking at Paris prices, they have yet to galvanise the city's hotels. Night and day the "floor ladies", albeit less grumpy and more obliging than they used to be, still guard the corridor to your hotel room.

As Caroline Woodward, head of corporate finance at the Kiev branch of Coopers and Lybrand, says: "What we have at the moment is western hotel prices without western standards."

That is not to say that existing accommodation is all that bad. The Hotel Dnipro, for example, remains state-owned and state-run. Its lobby is dowdy and ill-lit, but, all things considered, it isn't a bad place.

And visitors should make a special attempt to get tickets for the opera and ballet theatre, where I saw a spectacular production of Tchaikovsky's *Queen of Spades* and where a decent seat still costs only about \$10 (£6). As a Kiev-based westerner told me: "Half an hour of music there and all the aggravations of the day have vanished."

ARTS

OPENINGS

MUNICH
Following extensive renovation, the Prinzregententheater reopens on Sunday with a new production of Tristan und Isolde, conducted by Lorin Maazel and staged by August Everding. Built in 1901, the Prinzregententheater is the only theatre to have been modelled on Wagner's Festspielhaus in Bayreuth.

LEEDS
On Wednesday, at the West Yorkshire Playhouse, Prunella Scales and Eleanor Bron appear in the British premiere of A Perfect Ganesh, by the American playwright Terrence McNally, author of the current Broadway success Master Class.

WASHINGTON
The Washington Opera's 1996-7 season opens on Saturday with Antonio Carlos Gomes's rarely staged opera Il guarany, in a production marking the centenary of the Brazilian composer's death. Placido Domingo sings the title role.

LONDON
The Royal Shakespeare Company brings to London this week two of its Stratford-upon-Avon productions: Peter Whelan's new play *The Herbal Bed*, directed by Michael Attenborough, with Teresa Banham as Shakespeare's daughter and Joseph Fiennes as her lover, opening at the Pit on Tuesday, and Tim Albery's production of *Macbeth*, led by Roger Allam and Brid Brennan, opening in the Barbican Theatre on Wednesday.
Sonny Rollins and Abdullah Ibrahim are the headliners at the Oris London Jazz Festival, which opens on Friday. The eclectic 10-day programme [illegible] Elvis Costello singing gothic ballads [illegible] and trumpeter Guy Barker playing Miles Davis [illegible] in arrangements by Gil Evans, with the London Sinfonietta (Sunday), both at the Royal Festival Hall.

NEW YORK
[illegible] the Metropolitan [illegible]

Maman dearest

An exhibition devoted to the life of Madame de Sévigné reinforces her status as a French icon, writes **Jackie Wullschlager**

Chanel suits and clicking heels vie with the perfect twin-sets worn by ladies *d'un certain âge*. Scents waft as crowds crush in on a portrait of a long-dead, beautiful French woman who is famous simply because she wrote thousands of letters to her daughter.

This is the packed first day of an exhibition marking the 300th anniversary of the death of Madame de Sévigné, France's "mère extraordinaire, grande épistolière". Little known in England, she is a national icon in France and the epitome of the intellectual chic to which generation after generation of French women aspire.

The show "Madame de Sévigné" is inviting to foreigners because it filters a nation's history and preoccupations through an individual consciousness brought powerfully to life. Held in Madame de Sévigné's home and salon, the Hotel de Carnavalet in Paris' Marais district, its private-and-public aspect – pompous portraits next to locks of Madame's brilliant, red-gold hair, family letters along with gilded panels and chandeliers – exudes 17th century opulence.

These were the days when Madame de Sévigné's friend, the Sun King, tamed his subjects by urging them to sheath their swords and help with his nightshirt or hold his candle as he got undressed. Peeking at family treasures through the marble and red velvet interiors of the Hotel de Carnavalet gives a glimpse of how seductive that spectacle of intimacy must have been.

Marie de Rabutin Chantal, Marquise de Sévigné, was born in 1626 at the junction of two classes. Her father was a Burgundian count who belonged to the ancient noblesse d'épée – giving her exclusive courtly connections – and her mother came from a bourgeois, nouveau riche family. That she inherited the best of both worlds – aristocratic grace and self-confidence, a middle-class sense of restraint and tolerance, plus a good rationalist education – is one reason why she is so popular a figure: a constellation of traditional French virtues.

The family gallery as you sweep past the great staircase shows the difference with caricature-like intensity. There is the puffed-up splendour of her father, cousin and husband – all curls and lacy flounces and lethargic expressions – versus her modest pretty mother and the plump, pragmatic, kindly face of her abbot uncle, the "Bien Bon" who brought her up when she was orphaned at seven.

The radical here is Marie's grandmother (in a nun's habit), who left home and ignored her children, prostrate with grief lying across the doorstep, to join a convent – she was later beatified. This exhibition tells the story of strong, independent women. "One would not dare to be stupid with her," wrote a contemporary of Madame de Sévigné. Happily widowed at 25 when her husband was killed in a duel, she rejected all other suitors and became a famous single mother, devoted to her children and to her correspondence with intellectual women across the land. Her daughter, Francoise-Marguerite, known as "la plus jolie fille de France", rejected the King's advances, dismissed beauty as irrelevant and fleeting, and fled from her overwhelming mother to live in Provence. Thus began the daily exchange of letters about marriage, motherhood, health, food, politics, travel, which are one of our greatest historical sources for 17th century life.

That she inherited the best of both worlds – aristocratic grace, a middle-class sense of tolerance, plus a good education – is one reason why she is so popular a figure: a constellation of traditional French virtues

The English equivalent, comparable in wit, spontaneity, depth of detail, is Pepys's diary. "I write as long as it pleases my pen which governs everything": each scene here is enlivened by the easy, graceful, fluent prose of the letters on display. In the gaudy, hectic public room, portraits of Corneille, Racine, Molière in costume, are grouped around Madame de Sévigné's chinoiserie writing desk. She knew them all: Corneille she thought a genius; Racine a fad, like coffee, who would not last; with Molière she shared an instinct for the absurd which made her lament "what a scene he would have made of it" every time a ridiculous doctor, a stuffy cleric, came her way.

Her unique rendering of the commonplace comes into its own in the alcoves winding off the public rooms where we see this definite, logical woman worry about her daughter's pregnancies ("continue this good custom of sleeping separately"), about her syphilitic son-in-law, about whether chocolate made you high or gave you palpitations, as she sat among her make-up brushes and engraved mirrors. "Don't stop loving me, for love is my life and soul, it makes all my joy and all my grief," she writes to her daughter.

Virginia Woolf, who made a pilgrimage to the Hotel Carnavalet, called this "a passion that was twisted and morbid"; feminists have argued for a century over whether Marie de Sévigné was an ideal mother or a monster. This exhibition gives us a wonderful chance to know her better.

Musée Carnavalet, Paris, until Jan 12 1997.

A woman of letters: Madame de Sévigné, adored in France but reviled by many feminists

Theatre/**Alastair Macaulay**

Young writers make a 'Storming' debut

There are three good reasons to see the two programmes of *Storming*, the Royal Court's Marks and Spencer Young Writers' Festival: the plays themselves, their actors, and the spaces in which they are performed.

To deal first with the performance space: the Ambassadors Theatre, during the Royal Court Theatre Upstairs's current regime there, has been divided into two different theatres. Its gallery now forms the upper space, in which Harold Pinter's *Ashes to Ashes* was recently performed. It is a Greek theatre in miniature, gorgeous in its saffron colour, flawed only by intense reverberance emanating from peripheral noise among the audience. The first play of each *Storming* programme is given there.

Then – which is fun in itself – the backdrop is raised, and the audience is led across the stage, and, moving down only a few steps, finds itself in the other, more studio-like space. Here, with the upper space still in view, the second play occurs (in one play, the actors rush through both spaces). After an interval, the lower studio is closed into a separate space in which the final play is performed.

As for the actors, several of them perform in four different plays and run quite a gamut. Martin Ledwith, straight out of drama school and in his first professional appearance, is in five. He delivers five or six separate accents (Irish both southern and northern, aristocratic period Scottish, and modern London) to perfection, and illumines each piece with absorbing naturalness and intelligence.

Since he also has piercing blue eyes and a curiously reverberant bass voice, he is a major discovery. Even better is Daniel Coonan, another new drama-school graduate: as a self-destructive Irish introvert, as a manic-cartoon city slicker, as an anguished inner-city Scots teenager, he has complete authority and a nervous system of rare force.

Ashley Jensen very finely catches two different brands of callow late-adolescent emotional confusion and also a hilarious Womble-voiced sci-fi office dogsbody. Individual performances by Brigid Duffy, Diane O' Kelly, Valerine Hunkins, and others are also excellent.

I enjoyed all six of the plays more than many plays by older (including some celebrated) playwrights. Each, of course, showed signs of immaturity and each could have learnt from the others. Matty Chalk (aged 11!) has written a family tragedy, *The Separation*, about the 1745 Rebellion – and about the pointlessness and masculine fatuity of war – with exemplary and audacious economy.

Business as Unusual, a wacky futuristic comedy by Michael Shaw (only one year older), is so fast and furious that it carries the audience on waves of guffaws even before we have a clue what is going on.

I wanted *The Call*, by Lynda Prior (aged 18), to be twice as long. A dialogue for a young IRA couple in London, it fleshed out the lies and fantasies of its young woman with breathtaking persuasiveness. Stuart Swarbrick (aged 15) makes serious pathos from his urban Scots slice-of-life, *Drink, Smoking and Toking*. The two longest plays were both by 23-year-olds, and both – *The Future is Betamax* by Nicholas Kelly and *Backpay* by Tamantha Hammerschlag – developed a little too slowly.

Alastair Muir

Comedy sweeps winner: Ashley Jensen in 'Business as Unusual'

But Hammerschlag's portrait of a deracinated and immature white girl in modern South Africa became very absorbing; and the twists and turns in Kelly's account of five Irish unemployed young people became riveting, surprising and intensely affecting.

Who knows where these playwrights will go from here? Though this biennial Royal Court Young Writers' Festival has launched several now important playwrights, it is not a critic's job to make predictions. What is already clear, however, is that each of these young playwrights knows several secrets that many supposedly mature playwrights have never learnt.

Royal Court Theatre Upstairs, Ambassadors Theatre, WC2, until November 16. Then touring to Inverness, Aberdeen, Stirling.

INTERNATIONAL ARTS GUIDE

■ ADELAIDE

OPERA
Adelaide Festival Theatre
Tel: 61-8-216-8600
● Eugene Onegin: by Tchaikovsky. Conducted by Kenneth Montgomery and performed by the Adelaide Symphony Orchestra and the State Opera Chorus. Soloists include Irene Waugh, Patricia Payne and Claire Primrose; 7.30pm; Nov 5

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-6718345
● Koninklijk Concertgebouworkest: with conductor Kurt Sanderling perform works by Haydn and Bruckner; 8.15pm; Nov 6, 7, 8

■ BARCELONA

EXHIBITION
Fundació Joan Miró
Tel: 34-3-3291908
● Andy Warhol: exhibition including some 70 paintings and sculptures plus two installations, "Silver Clouds" and "Cow Wallpaper", by Andy Warhol (1928-1987). The organisers aim to highlight Warhol's importance in contemporary art. The works on display come from European and American collections; to Dec 1

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal
Tel: 49-30-2614383
● Berliner Philharmonischer Orchester: with conductor Mariss Jansons and violinist Sarah Chang perform works by Rossini, Sibelius and Berlioz; 8pm; Nov 6, 7, 8

■ BRUSSELS

EXHIBITION
Musée d'Art Moderne
Tel: 32-2-5083211
● Léon Spilliaert (1881-1946): exhibition featuring 41 works by the Belgian artist Léon Spilliaert from the museum's collection. Also sketch books, preparatory drawings, a poster design, photographs, letters and other documents are displayed, illustrating the life and artisitic activities of Spilliaert; to Dec 15

■ COPENHAGEN

OPERA
Det Kongelige Teater
Tel: 45-33 69 69 69
● Madama Butterfly: by Puccini. Conducted by Dietfried Bernet, performed by the Royal Danish Opera. Soloists include Gitta-Maria Sjöberg, Kaludi Kaludow and Karl Hamnoy; 8pm; Nov 9

■ HELSINKI

DANCE
Opera House Tel: 358-9-403021
● Don Quixote: a choreography by Bart after Pepita to music by Minkus, performed by the Helsinki Ballet. Soloists include Nina Hyvärinen, Kare Länsivuori, Pekka Yli-Marttila and Anu Sistonen; 7.30pm; Nov 9

■ LONDON

CONCERT
Wigmore Hall
Tel: 44-171-9352141
● The King's Consort: with conductor Robert King, soprano Deborah York and oboist Katharina Spreckelsen perform works by J.S. Bach, Tunder and Buxtehude; 7.30pm; Nov 7

EXHIBITION
British Museum
Tel: 44-171-6361555
● Old Master Drawings from the Malcolm Collection: masterpieces by Sandro Botticelli, Leonardo da Vinci, Michelangelo and Rembrandt are among the highlights of the collection of drawings formed by John Malcolm of Poltalloch (1805-1893). The collection entered the British Museum in 1895, and this exhibition celebrates the centenary with a choice of 200 drawings which reflect Malcolm's taste and reveal the extraordinary quality of his collection; to Jan 5

■ MUNICH

EXHIBITION
Villa Stuck Tel: 49-89-4555510
● Max Klinger. Zeichnungen – Zustandsdrucke – Zyklen: this exhibition features approximately 300 works on paper by the German artist Max Klinger (1857-1920) from German and Swiss public and private collections; to Jan 12

■ NEW YORK

EXHIBITION
International Center of Photography Tel: 1-212-860-1777
● Roadworks: Photographs by Linda McCartney: fleeting landscapes, anonymous pedestrians, garish billboards and backstage tedium are among the views from Linda McCartney's road trips between the late 1960s into the 1990s. This exhibition presents 75 spontaneous photographs taken from car windows, backstage, or on the street; from Nov 8 to Feb 9
MOMA – Museum of Modern Art, New York
Tel: 1-212-708-9400
● Jasper Johns: Process and Printmaking: the American artist Jasper Johns often embellishes early stages of his prints with chalk, crayon, watercolour and ink as he explores and refines his printed images, sometimes transforming these early proofs into finished drawing studies. These overdrawn works, known as working proofs, offer a unique insight into his artistic method. This exhibition, including approximately 125 works drawn almost entirely from the artist's collection, highlights these working proofs, many of which have never before been exhibited. Thirty images, each with a series of proofs, is presented, spanning Johns' entire career as a printmaker; to Jan 21

■ OSLO

CONCERT
Spektrum Tel: 47-22-176 610
● Kiri Te Kanawa: gala concert by the soprano, accompanied by violinist Arve Tellefsen and the Norwegian Radio Orchestra with conductor Robin Stapleton; 7.30pm; Nov 8

■ PARIS

OPERA
L'Opéra de Paris Bastille
Tel: 33-1 44 73 13 99
● I Capuleti e i Montecchi: by Bellini. Conducted by Evelino Pidò, performed by the Orchestre et Choeur de l'Opéra de Paris. Soloists include Andreas Silvestrelli, Laura Claycomb and Vesselina Kasarova; 7.30pm; Nov 6

■ STRASBOURG

EXHIBITION
Musée Art Moderne Ancienne Douane Tel: 33-88 32 48 95
● Eugène Carrière (1849-1906): retrospective exhibition devoted to the French painter Eugène Carrière, who is particularly known for his romantic portraits and pictures of motherhood. The exhibition brings together more than 70 paintings, 30 drawings and 10 prints from international public and private collections, giving an overview of Carrière's entire artistic career; to Feb 9

■ TOKYO

EXHIBITION
Tokyo Museum of Contemporary Art
Tel: 81-3-5245-4111
● Prints by David Hockney: exhibition featuring recent print works by the British artist, covering etching, lithograph, silkscreen and other experimental approaches; to Dec 15

■ VALENCIA

EXHIBITION
IVAM Centre Julio Gonzalez
Tel: 34-6-3863000
● Alex Katz: exhibition featuring 35 works by the American artist Alex Katz (b. 1927), covering all periods of his artistic development and including landscapes, portraits, urban scenes and conversation pieces. Katz's painting, revealing influences of Pop art, dissociates itself radically from Abstract Expressionism; to Jan 12

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. **Tel: 31 20 664 6441. E-mail: artbase@pi.net**

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Michael Prowse • America

Spurning Keynes

The English economist's reputation in the US is still grossly inflated given the damage his ideas have inflicted

Bill Clinton deserves praise on one score. He is the first Democratic president firmly to repudiate the dogmas of Keynesian economics. The economy is strong, he says, only because he had the courage to cut the budget deficit. This put downward pressure on long-term interest rates and caused a surge in private investment.

Let us hope this presidential campaign marks the end of America's love affair with John Maynard Keynes. It is 60 years since the publication of his supposed masterpiece, *The General Theory of Employment, Interest and Money*. The book was an instant success with young US academics. Professor Paul Samuelson of MIT and other eager disciples rapidly translated the great master's abstruse insights into simple graphs and equations. With new textbooks in hand, they conquered the economics profession.

The triumph of Keynesian theory exacerbated just about every weakness in the US economic psyche. A country that consumed too much was given an excuse to consume even more. Politicians who liked to borrow and meddle were told this was positively helpful. People who longed to ignore inflation learned that it would be beneficial if kept at "reasonable" levels. Sadly, Keynes's infamous dictum that "in the long run we are all dead" became a great nation's governing philosophy.

Yet although Keynesian policy prescriptions have been abandoned almost everywhere, Keynes's reputation remains surprisingly high. He is still regarded as a theorist of dazzling brilliance, the equal perhaps of such great names as Adam Smith or David Ricardo.

I recently took another look at *The General Theory*. As a student nearly 20 years ago, I used to hug myself with delight while reading Keynes. I am still impressed by his polemical verve.

Here he is attacking the opponents of public works spending: "If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coal-mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of laisser faire to dig the notes up again ... there need be no more unemployment ..."

Or again: "The classical theorists resemble Euclidean geometers in a non-Euclidean world who, discovering that in experience straight lines apparently parallel often meet, rebuke the lines for not keeping straight ..."

Yet the book, for all its verbal fireworks, now strikes me as chronically misguided. In the final chapter, Keynes argues in all seriousness that "a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment".

He advocates policies that would lead to the "euthanasia of the rentier" – in other words, an end to the possibility of living on the income from capital. He thinks it would be possible "for communal saving through the agency of the state to be maintained at a level which will allow the growth of capital up to the point where it ceases to be scarce".

Think about this. Keynes – the greatest economist of the century – is arguing that if the state assumed overall responsibility for investment, there would be so much capital that it would cease to command a price. We would all live in a land of perpetual plenty. Now ask yourself: did this happen in places where similar policies were tried – in the former Soviet Union or eastern Europe?

Keynes's admirers will say these were polemical asides, irrelevant to his main contribution, which was to show that an economy can settle into an equilibrium with high levels of unemployment. Keynes's lasting achievement, it will be claimed, was to show that the desire to save does not always have benign consequences. By reducing aggregate demand, it can sometimes lead to lower output and investment. At such junctures, the government must borrow to sustain demand.

But even this "underconsumption" thesis is wrong. In a market economy, consumer demand is expressed in money terms. If the desire to save leads to a fall in monetary demand, there is no reason in principle why prices should not fall. This is the usual response to a fall in demand. But if prices fall, the real level of demand need no longer be too low. In other words, Keynes's low employment equilibrium is feasible only if prices and wages are assumed to be inflexible.

This was hardly a great theoretical innovation. Classical economists had always known that wage and price rigidities would cause unemployment of resources in labour and product markets. And so they advocated policies that would promote the flexibility of all prices, including wages. For example, they opposed special privileges for trade unions and levels of social benefits that would reduce people's willingness to work.

Today, after a diversion up Keynes's blind alley, economists seem again to be reverting to the traditional view that the flexibility of markets – not government intervention – is the key to lasting prosperity and high levels of employment.

Looking back, one might ask why Keynes's convoluted – and often incoherent – musings on economics exerted so powerful an influence for so long, especially in the US. The answer is very clear. He told left-leaning academics exactly what they wanted to hear. The market system was cruel and inefficient. The world could be saved only if clever people like them entered government and "managed" the nation's affairs. What more popular doctrine could anyone have invented?

Hulton Getty Picture Collection/Camera Press

Verbal fireworks: Keynes (left) and disciple Samuelson

· LETTERS TO THE EDITOR ·

Number One Southwark Bridge, London SE1 9HL

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Translation may be available for letters written in the main international languages.

Sea convention not to blame

From Mr Alan Berlind.

Sir, The United Nations Convention on the Law of the Sea (Unclos), complex though it be, cannot logically be held responsible for current maritime disputes in the Pacific, the Aegean or elsewhere, contrary to the suggestion by Bruce Clark ("UN in search of peaceful waters", October 18) and the follow-up leader ("A maritime law becalmed", October 21). Pre-existing problems ought not be blamed on the solution.

Most of those disputes predate Unclos by many years, and states have long claimed rights over vast expanses of ocean space, citing customary international law or vital national interests in their defence.

Similarly, Turkey has for years warned that a Greek assertion of a 12-mile territorial sea would constitute a *casus belli*, and Greece has for just as long retorted that it reserved the right to make such a claim, whatever its actual intentions.

Many long-standing claims were far more extensive than those allowed by Unclos, and they have been retracted by virtue of acceptance of the treaty. For example, before Unclos entered into force, 20 coastal states had made claims to territorial seas in excess of 12 nautical miles. By signing the treaty, 16 of the 20 have voluntarily limited themselves to the agreed figure of 12. The treaty has had the similar effect of regularising claims to resource zones. (Unclos, incidentally, entitles states to both an exclusive economic zone and a continental shelf.)

It is true that Unclos, by allowing islands the same resource rights as those enjoyed by their mainland proprietors, may have whetted appetites wherever rich fisheries or offshore oil deposits lie. But the ensuing disputes, which were bound to arise sooner or later, are to be settled peaceably in accordance with procedures agreed in the treaty.

No treaty is better than the intentions of its adherents or the willingness of the international community to enforce its terms. Unclos offers the choice of stability and predictability in the multiple uses of the seas and their resources to replace the chaos that has existed for so many years. I see no potential for harm in that.

Alan Berlind,
(former director, US Office of the Law of the Sea Negotiations),
Le Champ Neuf,
03320 Couleuvre, France

Reality is what woos women voters

From Ms H. Mills.

Sir, Not only did Michael Prowse ("The politics of gender", October 28) trot out some well-worn clichés about why most women might vote to re-elect President Clinton, he also managed two ridiculous and contentious statements.

First, to suggest that "softer" free-market rhetoric is needed to woo women voters is as patronising as it is absurd – hard reality is what counts, and that is why plenty of women will always be suspicious of politicians who want to dismantle welfare and benefit structures.

Second, he calls the free market the pre-eminent form of social co-operation. In recent years there have been many over-confident assertions about the supposed benefits of untrammelled markets. Again, the reality of market failures has helped most commentators to write at least some nuance into their earlier positions. Mr Prowse, it seems, has moved from the extreme to the bizarre.

Hazel Mills,
118 West 79th St,
New York, NY 10024, US

Benefits of Sabena deal with Virgin

From Mr Etienne De Nil.

Sir, Your report "Virgin Express in Sabena accord" (October 25) states that Virgin is to "take over loss-making flights operated by Sabena" between London and Brussels.

For the sake of complete understanding of the situation, it should be understood that what has happened is that Sabena is wet leasing, ie with crew, three Virgin Express Boeing 737 aircraft. These will use the Sabena Brussels service slots at Heathrow, which remain the property of Sabena, and the capacity on each flight will be shared. However, rather than Virgin reserving "some seats for Sabena passengers", as you stated, it is Sabena which has the majority of the capacity offered.

The agreement has benefits for the public in terms of lower fares and for both carriers in that they will enjoy lower overheads than would otherwise be possible even though in competition with each other. It also means Sabena's three aircraft previously used on the Brussels/Heathrow route can be allocated to other European routes.

Etienne De Nil,
general manager for UK and Ireland, Sabena,
10-18 Putney Hill,
London SW15 6AA

Treaty plan will hit developing countries

From Mr Nick Mabey.

Sir, Mr Canner and Mr Strougin (Letters, October 30) argue that negotiating a multilateral agreement on investment inside the World Trade Organisation would lead to unacceptable watering down of its conditions. This represents a patronising and dangerous viewpoint on the process of international negotiations.

Corporate investors may see the treaty as a good thing because it gives them many new rights. However, developing countries can only decide to take it or leave it – and are unable to incorporate their own development concerns into the text. This has resulted in an agreement which prohibits countries from requiring local content in investment, technology transfer and the hiring of local personnel. Yet such conditions are vital for promoting long-term investment and the development of globally competitive local industries. By removing these options the multilateral agreement encourages dependence on footloose foreign capital, attracted to low wages and lax environmental and labour standards.

The speed of the multilateral agreement process has excluded meaningful consultation with non-governmental groups – and often other government departments outside trade ministries.

An equitable and workable agreement must result from a transparent and inclusive process, perhaps inside the WTO: a quick deal decided inside the OECD is no substitute for a more mature political discussion.

Nick Mabey,
economics and development officer,
WWF-UK,
Godalming, Surrey, UK

The FT Interview • Yuri Luzhkov

A mayor with attitude

Chrystia Freeland, Andrew Gowers and **John Thornhill** meet Moscow's combative man in charge

James Hill

Thumping the table: Yuri Luzhkov is widely tipped as a future presidential candidate

"Comrade Zilites, I think that you steal!" thundered Mr Yuri Luzhkov, mayor of Moscow. The assembled Zil management, a shabby crew as ineffectual as the Moscow truck factory it runs, cowered. For the next few hours the directors took notes and struggled to answer questions as Russia's most powerful regional boss roughed them up with a relentless interrogation.

The carefully staged ritual humiliation in Zil's boardroom in front of FT journalists on Friday was a typical Luzhkov contribution to the drama of Russia's political and economic development. Backed by Moscow voters and the wealth of the capital city, Mr Luzhkov has emerged as one of the strongest figures on the national stage. Many think he will be Russia's next president.

Mr Luzhkov vehemently denies any designs on the Kremlin, but he is not shy about putting forward his vision of how the country should be run. He has chosen the Zil factory – an emotional symbol of the Soviet Union's now idle industrial muscle – as his showcase, reversing its privatisation and installing himself as "emergency director".

"It [the decision to buy back Zil] is to show how one should work with the privatised system. Because in many cases privatisation has already taken place... and it is a failure," said Mr Luzhkov, an intuitive politician with the plastic features of an actor and the palpable ruthlessness of a boss used to getting his way. "But the state can find honourable ways out of that difficult situation. And we will show what can and must be done."

With a combination of Soviet-style table thumping and the resources of the city of Moscow, now Zil's biggest client, Mr Luzhkov is determined to turn the factory around. His ultimate goal is to offer Russians, who increasingly express admiration for the mayor, an alternative economic model, with himself at the helm.

"They say to me, you are crazy. The factory has already died. Nothing of the sort. Give me half a year, and Zil will be standing quite securely on its feet," promised Mr Luzhkov, whose gleaming pate regularly features on the nation's television screens.

Next to President Boris Yeltsin, who was a candidate member of the Politburo under the old regime, the 60-year-old Mr Luzhkov is the most prominent example of a Soviet-bred leader who has successfully adapted to the post-communist era. He does not conceal his scorn for the interlopers, the radical young market reformers who have also taken a place at the top. Nor does he hide his ambition to reject both their programmes and the failed recipes of communism.

"I am a market man and believe that the market economy is the system which most suits the interests of a civilised society," Mr Luzhkov said. "But the way privatisation was conducted here, in our country, I consider to be disastrous. Unfortunately, I was the only one who immediately spoke out against privatisation Chubais-style."

Mr Luzhkov's enthusiasm for belittling Mr Anatoly Chubais – presidential chief of staff and architect of mass privatisation who is now one of the most powerful men in the country – is a measure of the mayor's political confidence. It is also a sign that, as Mr Yeltsin's seclusion lengthens, the rifts between his henchmen are deepening.

The sharpest animosity among Yeltsin loyalists is between Mr Luzhkov and Mr Chubais. But the city boss is also not afraid to stand up to the third member of the Yeltsin troika: Mr Victor Chernomyrdin, the prime minister, who, like Mr Luzhkov, is thought to harbour presidential ambitions.

The Moscow mayor believes that Russia's lethargic economy can be jolted into life only if energy prices are cut to a fraction of their current levels. It is a prescription he recently urged on the premier, a tireless defender of the energy lobby.

"I recently had a discussion with Victor Stepanovich Chernomyrdin, and I suggested that he lower fuel prices, not just by a few percentage points, but several times over," Mr Luzhkov said. He admitted that this "might seem to be an extravagant proposal", but he believes lower prices would bring higher revenues because only a fraction of consumers can afford the current rates.

Mr Luzhkov criticises his rivals from a strong home base. Even in the late Soviet era, Moscow, which was Mr Yeltsin's stepping stone to the Kremlin, was a launching pad for national ambitions. Under Mr Luzhkov's stewardship, it has become more influential than ever. Through intimate but obscure ties with local business groups, Mr Luzhkov has secured a hold over the capital. More important, in the admiring opinion of Muscovites, who elected him by a landslide in June, Mr Luzhkov has shown himself to be an exceptional *khozaistvennyk*, the Russian word half-way between manager and master, of his city.

The emphatically patriotic mayor's more extravagant projects – including a massive statue of Peter the Great – are dismissed as post-Soviet kitsch by Moscow's chattering classes. But these monuments, and Moscow's well managed municipal services, have won the mayor the devotion of the city.

"People support me in the election 90 per cent – a record of Guinness!" Mr Luzhkov crowed in a few sentences of sturdy English trotted out to demonstrate his sophistication.

Then he leapt into the cab of a Zil truck to lead a cavalcade of the factory's vehicles on the last leg of an advertising tour that had taken them through the most populous provinces of European Russia. For a man who insists "my ambition only is Moscow", Mr Luzhkov is already running a terrific national campaign.

FINANCIAL TIMES

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Monday November 4 1996

Savings in transition

What role should contractual savings play in the transition economies of the former Soviet Union and eastern Europe? The question, raised in the latest of the annual Transition Reports from the European Bank for Reconstruction and Development (EBRD), is as important as it is difficult. If the pension and insurance arrangements of these economies are ill designed at the outset, there will be adverse consequences not just for economic growth but for political stability. So much the better, then, that the EBRD is raising the issues at this relatively early stage.

The immediate difficulty in tackling long-term savings in the context of transition is that western economists usually discuss the subject by reference to the life-cycle hypothesis. The critical underlying assumptions are that individuals are sophisticated enough to plan for retirement over their lifetimes and that there are no restrictions on individual borrowing against existing wealth or future income. These are questionable enough in much of the developed world. In Russia, Bulgaria or Uzbekistan, they need substantial qualification.

Successful models

While it is tempting to urge funded pensions on the transition economies on the ground that high rates of growth will call for high levels of domestic saving, the extent to which funding delivers on this promise remains controversial among economists. And from a purely practical point of view it could be argued that some of the most successful models of reconstruction have been in countries like Germany, where universal banks have acted as a capital market surrogate.

The lion's share of German pensions provision, meanwhile, has been very successfully undertaken through a pay-as-you-go state system. Even when confronted with an ageing population, the consensual Germans have managed to reduce state benefits after discussion between the social partners.

Yet the German model, which calls for an unusual degree of fiscal discipline, is a highly risky one for others. The political temptation to set pension contribution rates low, thereby running up large unfunded liabilities as the population ages, is too great for comfort, especially where young democracies are struggling to achieve legitimacy. If pension promises are to be honoured, a basic pay-as-you-go state pension system, combined with growing reliance on private occupational or individual provision, looks safer and more transparent.

Stable world

Given that paternalistic, defined-benefit pensions are designed for a stable world of lifetime employment, they are of limited interest today. The disadvantage of the alternative defined-contribution schemes is that the individual shoulders all the investment risk. Yet the rewards could be substantial in transition economies where capital productivity is potentially very high. With this approach there is a premium, as the EBRD says, on robust regulation to improve confidence and protect the unsophisticated.

Encouraging the development of longer-term capital markets is not without dangers. If the best borrowers can raise long-term funds outside the banking system, the banks' portfolio of risks may be too thinly spread among the less desirable credits. Yet as the EBRD suggests, long-term institutions are unlikely to spring up rapidly without the prior establishment of strong banks and sound payment and settlement systems.

There are advantages for both governments and companies in having institutional investors capable of absorbing paper with longer maturities. And a bias in favour of equity, which provides a cushion against shocks, would be no bad thing in countries where macroeconomic policy is erratic and banking systems shaky. In due course, a dynamic contractual savings sector has a great deal to offer.

BT becomes a global giant

The bold plan by British Telecommunications to merge with MCI, the second largest US carrier, is part of a global restructuring of unparalleled complexity and scope.

It marks the end of an era in which huge telephone monopolies conspired with governments to frustrate the best interests of consumers. The results were: excessive charges, distortions of tariff structures by political pressure, over-manning, inefficiency, resistance to new technology and the abuse of market power to exclude competitors.

Until recently, BT and MCI represented opposite poles of this over-regulated world. When BT was still a nationalised monument, MCI was an aggressive upstart, exploiting excessive long distance charges by AT&T, the US telephone monopoly. Then in 1984, BT was privatised, AT&T was broken up and the present revolution began.

It was propelled by rapidly advancing technology, which was also behind MCI's spectacular success. As computers, satellites, and optical fibres cut costs, politicians came to realise that the efficient use of communications was an important engine of economic growth.

Telecommunications was no longer a natural monopoly, requiring huge fixed investments in copper cable and mechanical switches. Competitors can now use optical fibres capable of carrying 1.2m simultaneous calls and compact computers for switching.

Even delivery of telephone services to homes and offices is becoming open to competition: from mobile telephones, services beamed directly from radio masts (or even satellites) and cable television companies.

Second wave

These developments led this year to a second wave of deregulation in the US and the UK. The US Telecommunications Act allowed competitors into local networks run by the seven regional "Baby Bell" companies which were hived off from AT&T. In the UK, parallel measures were taken by Oftel, the industry's regulator.

This liberalisation has opposite consequences for BT and MCI. In the UK, where BT still has more than 90 per cent of the market, profits and market share will be under pressure. MCI, however, has the chance to move into the territory of "Baby Bells", probably in the business sector. The two companies hope that in combination they will be better able to do this and to move into the EU market after it becomes liberalised on January 1 1998.

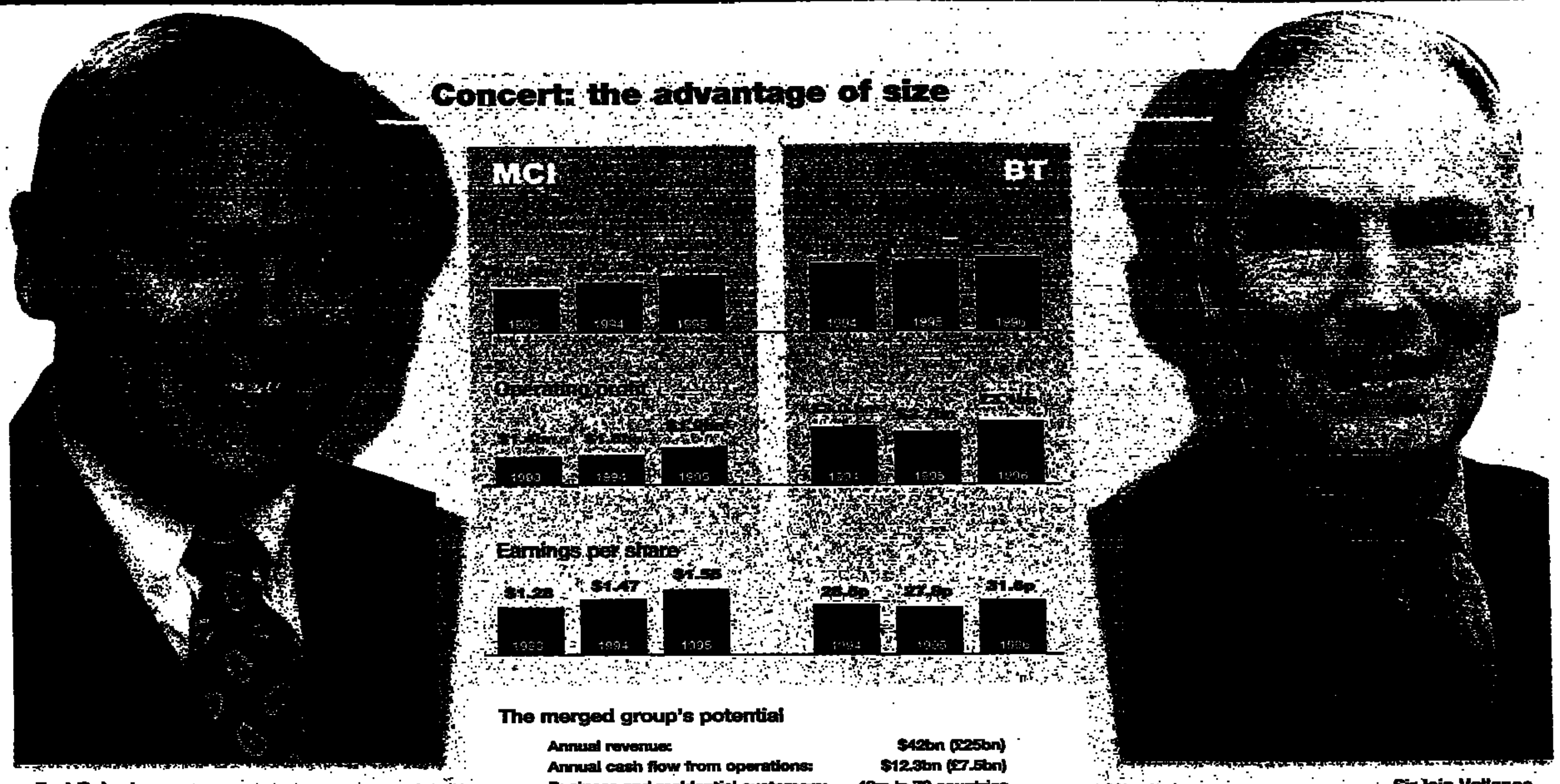
Combined strength

If Concert, the merged group, can exploit complementary skills in these ways, customers will surely benefit: but with one important proviso. Strong regulatory action is needed to ensure that the combined strength of Concert is used to sharpen competition rather than to frustrate it. This requires that as Concert gains market share in the US, France and Germany, it must accept that it will cede ground in the UK.

Moreover, EU countries must quickly establish vigorous regulatory regimes to ensure that their state telecommunications companies do not entrench themselves as private monopolies after 1998. In the long distance market also, the authorities must be vigilant against anti-competitive practices by the three global groups which are now emerging, Concert, Global One (which includes France Telecom and Deutsche Telekom and Sprint of the US) and AT&T WorldPartners.

The uncertainties are great, the difficulties are formidable, but the potential benefits of a free market in telecommunications far outweigh them. Since privatisation, BT's turnover has doubled, its workforce has fallen by half and customers' prices have fallen by 40 per cent in real terms. The price of transatlantic telephone calls has halved in the last four years, but is still nearly three times the cost. BT charges £1.41 ($2.29) for a five minute evening call to New York. One of its competitors charges only 50p.

And this is just the start.



Bert Roberts co-chairman

Source: Company reports

Sir Iain Vallance co-chairman

A telecoms titan on the line

BT and MCI are weak in Asia, but their proposed $20bn merger should give them the money and the vigour to compete effectively in Europe and the US, says **Alan Cane**

Yesterday's announcement of a proposed merger between British Telecommunications of the UK and MCI, the second largest US long distance carrier, is a powerful example of the processes of consolidation now reshaping the global telecoms business.

It will be the largest takeover undertaken by a UK company and, if it comes to fruition, will create a giant telecoms operator with annual revenues of £25bn serving 43m business and residential customers in 70 countries.

It will also mean the eclipse of the names "British Telecommunications" and "MCI", both to be reduced to brand names for the new company's services in the UK and US respectively. The group will be called Concert.

Although technically BT is taking over MCI, both companies insist it is more of a merger. The management of the two companies is to be integrated, there will headquarters both in the US and UK and the joint chairmen – Sir Iain Vallance for BT and Mr Bert Roberts for MCI – will preside alternately over board meetings held on their home soil.

BT already holds a 20 per cent stake in MCI, bought in 1994 when the two companies established a joint venture called Concert Communications Services. This venture is the key to both company's ambitions to be global players. It is a "global supercarrier", an operator able to offer a range of advanced services to multinational corporations.

While it is early days – Concert has yet to make a profit – the early indicators are good. The difficulties of persuading two very different companies to work in tandem seem to have been contained if not completely overcome, and the company has over $1bn of orders in the pipeline. It has a two-year start on its principal rivals, Global One (owned by Deutsche Telekom, France Télécom and Sprint of the US) and AT&T WorldPartners, both of which have yet to achieve full regulatory approvals from Brussels and from the US authorities.

The news has already sent a shockwave of alarm through BT's and MCI's competitors. Mr Robert Allen, chairman of AT&T, the largest US telecoms operator, rushed out a statement questioning the basis on which the US regulatory authorities might be persuaded to sanction the BT-MCI deal. It is a standard spoiling tactic but indicative of the seriousness with which AT&T regards its new competitor.

Industry observers yesterday paid tribute to what is acknowledged as a bold and imaginative move. One said: "This is just the deal BT should have done. But I did not believe it had the guts to do it."

But such "megamergers" are prey to problems. What could cause it to fail? There are three initial barriers. First, the possibility of a more attractive bid for MCI from another suitor. Analysts think this unlikely. Moreover the fact that the two companies are already linked through their Concert joint venture would enable BT to make life difficult for a new bidder.

Second, regulation. The deal will have to secure the sanction *of the US Federal Communica*tions Commission and the US Justice Department. Sir Peter Bonfield, BT chief executive and chief executive elect of the new group, said yesterday he believed all the regulatory hurdles would be negotiated by the end of 1997. A telling factor here may be the enormous financial resources of BT, which is paying $20.5bn to secure the deal. US regulators are keen to encourage competition in the US market and understand the operators' need for capital to underpin their plans.

Third, culture. The two companies are different in style and emphasis. BT, despite 10 years in private ownership, is still committee-bound, slow and bureaucratic. MCI, founded in the 1960s, is aggressive, imaginative and quick. Sir Peter has described the relationship as akin to "holding a tiger by the tail" and the MCI executive style as "managing by right-angle turns".

The worst may to be over, however. The two have had three years to become accustomed to each other while setting up the Concert supercarrier. Mr Gerald Taylor, MCI president and chief operating officer elect of the new company, while admitting there were difficulties at times, pointed to Sir Peter's experience of the US. "We may not understand the Brits all the while but Peter understands us!" he said.

Stripped of the undoubted glamour of size and cost, however, the prospect of a merger between BT and MCI raises a number of questions of commercial strategy, of which the most significant are: why now, and why at all?

For both companies, the logic of the deal has to do with size. There is a powerful belief in the telecoms industry that within the next five to 10 years continued consolidation will see the survival of only two or perhaps three large international telecoms groups.

BT and MCI combined will be able to provide many customers on a global basis with a full range of communications ser*vices including local,* long-distance, international, mobile and multimedia services, as well as systems integration and Internet access.

In the US, MCI already provides much of the Internet "backbone", the high capacity pipes along which Internet traffic flows. BT and MCI between them are creating a new network to provide quality Internet services for premium rate customers.

> It will be the largest takeover undertaken by a UK company and will create an operator with annual revenues of £25bn, serving 43m customers in 70 countries

The merged company will also, according to Sir Peter, be more attractive to further partners, especially in the Asia-Pacific region where both companies are weak. He has made no secret of his desire to form an alliance with NTT, the largest Japanese telecoms operator. But NTT's future structure has still be to decided by the Japanese government.

The timing of the merger has much to do with changes in regulatory positions both in Europe and the US. Europe's telecoms markets are set for liberalisation from January 1 1998. In the US, this year's Telecommunications Act is in the process of sweeping away barriers which prevent long-distance carriers – AT&T, MCI and Sprint for example – from competing for business in local areas, and which stop local *operators, the regional Bell oper*ating companies, from taking on the long-haul operators.

This means that MCI should be able to expand into a large and profitable market worth about $100bn a year – with earnings before interest, tax, depreciation and amortisation of some $43bn.

To be successful, however, it will have to invest heavily. "The telecoms business has a voracious appetite for capital," said MCI's Mr Taylor. He pointed out that MCI could not meet this requirement effectively from its own resources.

So BT's very strong balance sheet, which can underpin the further development of its business is a key reason for the MCI's enthusiasm for the deal. And MCI is already growing at twice the average rate of the rest of the US telecoms industry. Over the past four years revenues have grown by an average of 13.6 per cent a year while earnings per share grew 11.6 per cent.

Mr Taylor said: "In my 27 years in the telecoms business I have never seen a better time to enter the local market."

A BT shareholder might view the matter differently. "BT is making a huge bet on MCI being successful in breaking into local US markets," says Mr Laurence Heyworth, telecoms analyst with Robert Fleming Research in London.

Both companies should gain significant benefits by merging their long distance interests. It is likely that the international accounting rate system, through which operators pay each other agreed rates for carrying each other's traffic, and which has long held international call rates artificially high, is set to collapse. New technologies such as call-back, whereby a call can be reversed from a high-tariff zone to a lower-tariff zone, are making the accounting rate system untenable.

The proposed new company, owning both ends of the lucrative transatlantic route, should be in a powerful position to gain mar*ket share as competition bites* and prices fall.

BT's Sir Peter, however, clearly believes that a major benefit from the merger will be the effect of MCI's entrepreneurial corporate culture on BT.

The process will begin, he explained, by the exchange of senior executives. "We are not going to be swapping engineers," he said. But he expects the effects of change at the top to filter down through the workforce.

He points to examples of MCI's entrepreneurial style – such as the "Family and Friends" discount call programme which helped the US group take market share from AT&T, its Internet initiatives and its calling cards, which take advantage of intelligence in the network to reduce customer's bills. "I'm looking for the impact of a different style on BT," said Sir Peter.

· OBSERVER ·

Medallion man of Wipo

■ It looks like Arpad Bogsch, the septuagenarian boss of the World Intellectual Property Organisation, based in Geneva, will not be pushing off early, despite his honouring of General Sani Abacha, the Nigerian dictator, with a gold medal normally given for significant achievements by inventors.

Like much of the rest of the world Observer is still in the dark about what it is Abacha has supposedly invented, but let that pass.

Bogsch's gift to Abacha has vastly irked the Americans, but in Geneva's wider diplomatic community it's done little more than raise some eyebrows. A Hungarian-born American and international copyright lawyer who helped set up Wipo in the early 1970s, Bogsch has run the organisation more or less as his private fiefdom since 1973.

As head of one of the UN's more obscure offshoots – and one that moreover makes money, from international patent fees – Bogsch has been given a pretty free hand by member governments.

Until, that is, September, when Bogsch had a run-in with Washington over plans for a sumptuous new building to be financed by Wipo's accumulated fee booty. Creating Abacha as Nigeria's medallion man hasn't helped, but most western diplomats are taking a laid-back stance, content in the knowledge that Bogsch is in any case due to pass quietly into retirement next year.

In any case, scattering Wipo medals to the wind – nearly 400 at the last count – no doubt comes naturally to a man who is himself an avid collector of gongs. His own include Commander of the National Order of the Lion (Senegal), Order "Madara Horseman" (Bulgaria), Exalted Order of the White Elephant Commander (Thailand) and First Class Order of the Sacred Treasure (Japan).

Big name assets

■ If you're trying to raise money for a new hedge fund, it helps to have a memorable name. So Vinik Asset Management, the new fund set up by Jeffrey Vinik, the high-profile 37-year-old manager who used to run the largest mutual fund in the US, Fidelity's $50bn Magellan fund, already has something going for it.

Vinik resigned amid a flurry of publicity in May, after the fund dramatically underperformed the S&P 500 index for the first four months of the year, following an ill-timed exit from technology stocks.

Despite that handicap, Vinik's new hedge fund has already raised around $800m, and it has yet to close. It may be pin money by Fidelity's standards, but Vinik has big ambitions.

And maybe investors have good reason to place their faith in Vinik: even after this year's misguided shift, Magellan still managed to outperform the S&P, as well as comparable funds, during Vinik's tenure.

Out of sight . . .

■ At a dinner hosted by Jacques Santer in Paris last Thursday, the European Commission's president was questioned on France's controversial plan to use FFr37.5bn of pension fund transfers from France Télécom to help it to qualify for the single European currency.

Santer blithely replied that the Commission's statistical wing, Eurostat, would make a decision "in the next few days". His audience found that a little bizarre, as Santer's remarks came several hours *after* Yves Franchet, Eurostat's director, had indeed approved the French manoeuvre. We know the ways of Brussels are byzantine – but this has really foxed us.

Adler's triumph

■ Triumph-Adler may be best known for its typewriters, but the German industrial company is currently enjoying runaway success with a rather different product – a "functional toy" called Baby Born.

This precocious, baby-size doll can be fed and it also imitates other, equally essential bodily functions. It can, as a result, be kitted out in proper nappies.

Selling well in Germany, it's now been launched in the US, where sales are soaring. Indeed, its success means the manufacturer is now selling more nappies a year than are consumed by all of Germany's neo-natal clinics. So here's to Triumph-Adler – bottoms up!

Bolshie vacations

■ Independent Ukraine is this week celebrating the 79th anniversary of the Bolshevik revolution. This should not be seen as an ideological statement; many Ukrainians prefer to forget Soviet rule, as several million died in famines and purges, both courtesy of Joseph Stalin.

No, it's more a matter of inertia. The government has yet to get around to changing a 1971 labour law, setting aside the Revolution as a holiday. And most citizens are only too pleased with the promised free time – November 7 and 8 – to raise a fuss. Communism's final legacy: a couple of days off.

The Financial Times

100 years ago

The U.S. Presidential Election McKinley Sweeps the Board: Sound Money in The Ascendant.

From Our Own Correspondent, New York, November 3rd. The news to hand favours McKinley everywhere, but nothing definite is yet known. It seems, however, safe to assume that there will be a large majority for Sound Money, and that the victory of the Republicans will be conclusive.

Later: The newspapers universally bulletin Mr. McKinley as elected for President. The returns so far all show Republican gains, and there seems no doubt that the issue is settled in a most decisive manner.

9 p.m. McKinley and Hobart have been elected without doubt. The consensus of opinion of all political experts at the national Republican headquarters is that there has been a Republican "landslide", and that McKinley has been elected by a majority far larger than even the most sanguine Republican expected.

9.45pm It looks at the present hour as if Mr. McKinley had established 191 votes in the Electoral College against Mr. Bryan's 9.

FINANCIAL TIMES
Monday November 4 1996

Kvaerner to build country's longest bridge

Norwegian group wins $163m Chinese contract

By Simon London in London, John Ridding in Hong Kong and Tony Walker in Beijing

Kvaerner, the Norwegian shipbuilding and engineering group, has overcome fierce international competition to win a Chinese contract of more than £100m ($163m) to build one of the world's longest suspension bridges.

The agreement represents a notable success for Cleveland Structural Engineering, a UK subsidiary of Kvaerner.

Kvaerner is due to announce today that it has been selected by authorities in Jiangsu province to build the 1.4km road *bridge over the Yangtze river* – one of the largest bridge-building contracts awarded in China. The work, financed under the fourth Sino-UK concessionary finance agreement, is expected to start before the end of this year. The bridge is due to open in 1999.

Kvaerner, which this year acquired Trafalgar House, the UK property and construction group, is a market leader in bridge building through its Cleveland unit.

Cleveland, which is also heading the consortium to build the Tsing Ma bridge in

Li Lanqing: official visit

Hong Kong, the world's largest *road-rail suspension bridge*, will provide the superstructure and deck of the Jiangying bridge across the Yangtze. Chinese contractors will build the foundations.

Located 150km east of Nanjing, the bridge will be the longest in China and one of the world's biggest suspension bridges. It will form part of the road system between Nanjing and Shanghai.

For Kvaerner, the agreement marks a further step in its plans to expand in Asia. It recently secured contracts to supply hydro-electric power turbines to Malaysia's Bakun Dam project and pulping equipment in Thailand, and has a 10 per cent stake in a Philippines nickel project.

The announcement also coincides with a visit to the UK by China's vice-premier Mr Li Lanqing.

Mr Li, a possible future premier, is the most senior Chinese official to visit London for several years. He is expected to discuss both commercial issues and Hong Kong's transition to Beijing's control on July 1 next year.

A British trade official in Beijing said Mr Li's visit would continue a programme *of enhanced contacts in the* lead-up to the Hong Kong takeover. This has included two visits to Beijing in the past 18 months by Mr Michael Heseltine, the UK deputy prime minister.

Britain, with investment in China of about £1.74bn and a further £6.45bn pledged, is among the country's top 10 foreign investors. Two-way trade last year stood at £2.8bn, and is running about two-to-one in China's favour.

HK selection committee, Page 5

MCI agrees $20bn merger with BT

Continued from Page 1

will result in about £200m of restructuring costs – due largely to redundancies and write-offs on duplicated equipment – which BT said would dilute earnings by about 5 per cent in Concert's first year.

But BT and MCI estimate the combination of their marketing efforts to multinational companies will produce additional revenue of about £160m a year within five years.

They also estimate the merger will produce forecast annual savings of £340m in capital expenditure and administrative costs.

BT's financial resources will also allow MCI, which is halfway through a $2bn investment in local telecoms networks in the US, to pursue its assault on the lucrative market of the US Baby Bells.

These were created after the break-up of AT&T in 1984 as regional phone operators.

"This is an industry with a voracious appetite for capital," said Mr Gerald Taylor, president and chief operating officer of MCI.

The merger will also increase BT's attractiveness to telecoms companies in the Far East.

BT raised the possibility of a transglobal alliance, saying it would be interested in a link with NTT of Japan, the world's largest phone company.

The merger upturns the existing order in the international telecoms market.

It sets a serious challenge to both the international Unisource alliance led by AT&T, and the Global One grouping of Deutsche Telekom, France Télécom and Sprint of the US.

Clinton's win may not extend to Congress

Continued from Page 1

NBC News and the Wall Street Journal, which had the president at 47 per cent, Mr Dole at 37 per cent and Mr Perot at 9 per cent, against a 52-35-6 per cent division 10 days earlier.

Mr Dole, in an interview recorded last Friday but broadcast yesterday, conceded Mr Clinton was probably still ahead, but added: "We think it's going to be a very close race."

Extensive state-by-state reports in several weekend US newspapers suggested that the Republicans might hold on to their small majorities in Congress, though many individual House and Senate races were considered too close to call.

The Democrats need a net gain of three in the Senate and 19 in the House, probably more difficult to reach if Mr Clinton's support turns out to be less than it appeared likely to be only two weeks ago.

An extensive Washington Post survey concluded that the current 53-47 Republican edge in the Senate would be "at least as large" after tomorrow's votes were counted. A similar exercise in the New York Times noted the Demo*crats would have to win* "more than two-thirds" of 17 close Senate contests to take back control.

Greater uncertainty applies to the 435-member House, but the Post survey found that enough of the supposedly vulnerable 70 Republican freshmen were set to win re-election to give Congressman Newt Gingrich "a second chance" to serve as House Speaker. He has hinted he would not accept the job of minority leader.

Such an outcome, the newspaper observed, would be unusual. It would be the first time since 1930 that Republicans had prevailed in both houses in successive elections and it would also mark the *first time that a Democratic* president has been elected with both chambers in opposition hands.

Both candidates continued their punishing cross-country schedules over the weekend.

Moscow mayor leads calls for energy price cuts

By Chrystia Freeland in Moscow

Mr Yuri Luzhkov, mayor of Moscow, and many of Russia's business leaders, are pressing the Kremlin to slash energy prices, warning that the economy will otherwise be unable to recover from its depression.

The demands could spark conflict with the energy sector, one of the most powerful interest groups in Russia, which counts Mr Victor Chernomyrdin, prime minister, as a key ally.

"*The government has no* choice but to lower energy prices," Mr Luzhkov said in an interview with the Financial Times. "Today our prices are higher than in Europe. What kind of competitiveness can we dream of in these circumstances?"

Mr Luzhkov, who has been tipped as a possible successor to President Boris Yeltsin, said he had begun to lobby the government radically to reduce energy prices.

The government has cut wholesale electricity prices by 10 per cent and frozen the price of natural gas, but the call for a deeper reduction has been taken up by other political and business leaders.

"Energy is the single biggest cost in all the things Russia produces," said Mr Leonid Nevzlin, a senior executive at Menatep, one of the country's leading banking and industrial groups.

"For us to have growth in manufacturing, we must have a change in the costs producers face."

Energy prices – which have risen from subsidised Soviet-era rates to world levels as part of Russia's transition to a market economy – have been a link in a chain of non-payment that has entangled much of the economy.

Russian energy suppliers are reluctant to cut off residential consumers and are prohibited from cutting off "strategic" users, including the military and defence plants. As a result, the energy providers collect only a portion of what they nominally charge, pushing some of them into a financial crisis.

"Today, only about 15-17 per cent of consumers pay the energy suppliers. The rest do not pay and no one cuts anyone off . . . as a result the energy suppliers are beginning to face financial problems," Mr Luzhkov said.

"If we lower prices several*fold, then the 15 per cent of* consumers able to pay will rise to 85 per cent and the mass of money which the fuel system receives will get higher as prices get lower."

The FT Interview, Page 16

THE LEX COLUMN

Concert party

BT's share price will probably rise this morning. But that will be less to do with the brilliance of its MCI merger plans than the financial engineering accompanying the deal. Viewed in isolation, the merger is neither terribly good nor bad; the industrial benefits are roughly balanced by the 30 per cent premium BT is having to pay.

But the £2.2bn special dividend and the possibility that BT will buy back 10 per cent of its shares should ensure a good reception. Investors will be pleased that BT is at last deploying its almost ungeared balance sheet. But, of course, it did not have to embark on a mammoth acquisition to achieve that.

Moreover, the new group's borrowings will still be low. After the deal, net debt will be only £6.6bn (about three-quarters of annual operating cash flow) and interest *cover roughly 10 times. One does* not have to go to the extremes of Deutsche Telekom, whose net debt is three times operating cash flow, to appreciate that BT is not remotely pushing the edge of the envelope. It would have been better if it had paid a larger proportion of the consideration for MCI in cash rather than shares.

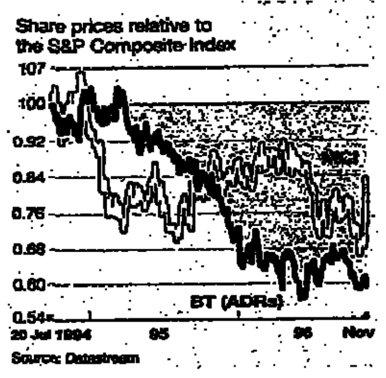
This is not to say a BT/MCI combination is devoid of industrial logic. A full marriage, rather than the current cohabitation, should position it to move more decisively in international markets. This will be especially advantageous because the old phone cartel, which carved up international phone traffic, is on its last legs. The new BT/MCI, dubbed Concert, will enjoy economies of scale as the world's second-largest international carrier; it should also be able to grab market share on transatlantic routes given that it will operate on both shores of the ocean. AT&T, the largest international carrier, is in such disarray that it will be hard-pressed to mount an effective counter-attack.

Still, the benefits should not be exaggerated. After all, BT and MCI already have an alliance addressing the multinational business market. And the targeted annual "synergies" of £500m pre-tax after five years are fairly paltry. Take account of the fact that these benefits will be split with MCI's current shareholders and the annual after-tax synergies attributable to BT's *shareholders are only £220m.*

Compare that with the £2.5bn premium BT is paying MCI's shareholders and the deal just about washes its face (before financial

Telecoms merger

Share prices relative to the S&P Composite Index



Source: Datastream

engineering). BT may feel it needed to act because GTE, a big US telecoms group, was also sniffing around MCI. But that should not have panicked BT; a three-way deal, *in which GTE paid the premium for* MCI, could have been more attractive. It would also have meant BT was not massively increasing its exposure to the US telecoms market just as competition was about to rip through it.

Factor in the special dividend and the overall package looks modestly attractive. To judge it really appealing, one would need to believe that MCI's dynamism will rub off on bureaucratic BT. In that case, investors may start to treat Concert as a quasi-growth stock. The risk, of course, is that BT will snuff out MCI's spirit. Ensuring it does not will be the biggest challenge for Sir Peter Bonfield, Concert's chief executive-in-waiting.

Mittelstand

Germany's medium-sized businesses account for more than 50 per cent of gross domestic product, employ two-thirds of the workforce and register three-quarters of all patents. As a rule they produce high-quality products and command great loyalty from employees and customers. But the Mittelstand has problems too. Germany's high costs, tight regulation and strong currency are forcing even small companies to choose between international expansion – for which they often lack the resources – and stagnation.

That raises two questions for investors. How to tap into the Mit*telstand's strengths while avoiding* its pitfalls. And, more fundamentally, how to get exposure at all, when 99 per cent of the 20,000 or so companies with sales between DM25m and DM250m are still privately owned.

Of course, there are some notably successful public Mittelstand businesses, such as Fresenius and Gehe in healthcare or furniture retailer Möbel Walther. Frankfurt's junior stock exchange, planned for next spring, should attract other fast-growing smaller companies. But there is an alternative. Triumph-Adler, a publicly quoted holding company, has set a conscious strategy of buying small companies in a sector and consolidating them into divisions. It leaves the operational managers in day-to-day control, but gives them greater access to capital and an international perspective. If it works, this mix of Mittelstand virtues with big company finances should prove attractive.

UK profits

The economy is growing, the high street is busy and September's half-year results season was decidedly upbeat. Yet the past week has been peppered with gloomy corporate announcements – from poor results at J.Sainsbury, Shell and Pilkington, to brokers' downgrades for Cookson and profit warnings by a number of smaller companies such as printing group Wace.

It is too early to declare a trend. Some of the figures are historical. In other cases, such as Sainsbury, the problems have more to do with management failure than external factors. But the bad news from small companies, which are more exposed to the healthy domestic economy, is worrying. It suggests *worthwhile profits growth* in today's low inflation environment is extremely hard to achieve – especially as margin expansion from cost cutting tails off and labour costs start to increase again. Average earnings have risen from 3¼ per cent to 4 per cent this year, while manufacturers' selling prices have fallen. Higher interest rates and the recent strength of sterling are added pressures. On that reading, estimates for next year's average earnings growth of between 9 and 15 per cent look vulnerable to a downgrade. Dividend growth, forecast at about 10 per cent, should hold up longer, given the importance placed on it by many investors. But there are 10 stock market sectors, including gas, diversified industrials, electronics and telecoms, where dividend cover is below 1.5 times. That leaves little room for error.

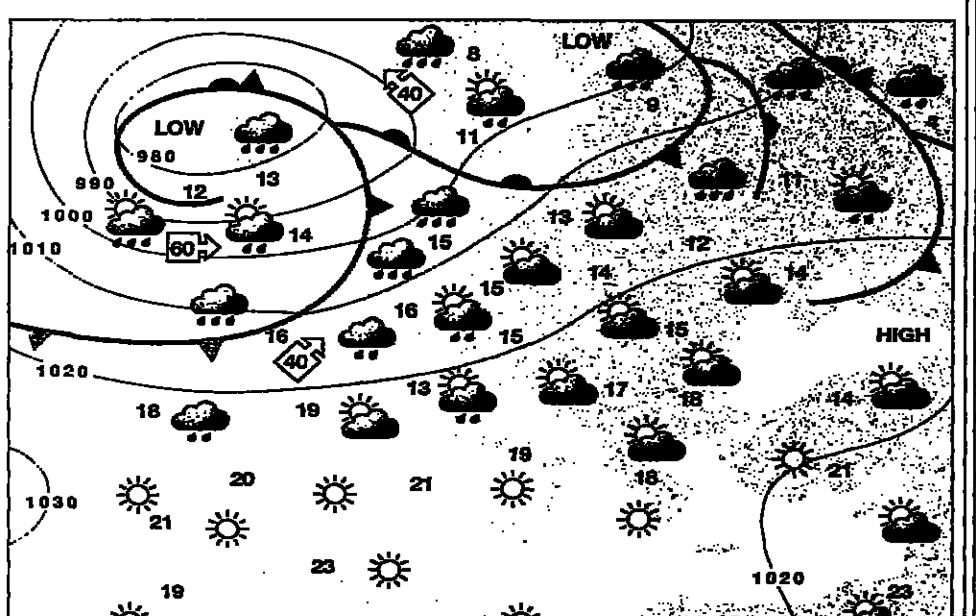
FT WEATHER GUIDE

Europe today

There will be typical autumn conditions over most of north-western Europe.
Gales along the coast of France, the Benelux, northern Germany and Denmark will be accompanied by cloud and rain.
Afternoon temperatures will be high for the time of year.
In Central and southern Europe, it will be calm with sunshine over the southern Iberian Peninsula, large areas of Italy and the southern Balkans.
Unstable air over northern Egypt will bring rain and thunder showers.
Western European Russia will be mostly cloudy with localised rain.

Five-day forecast

It will be unsettled during the next couple of days over western and northern Europe.
Turbulence accompanied by cold air will move into the Mediterranean, bringing rain and thunder showers over Italy on Tuesday and the southern Balkans on Wednesday.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius
Abu Dhabi	sun 31
Accra	fair 31
Algiers	sun 22
Amsterdam	rain 15
Athens	sun 18
Atlanta	sun 19
B. Aires	fair 25
B.ham	shower 13
Bangkok	rain 34
Barcelona	fair 19
Beijing	sun 15
Belfast	rain 11
Belgrade	sun 18
Berlin	cloudy 14
Bermuda	fair 24
Bogota	cloudy 21
Bombay	sun 34
Brussels	rain 15
Budapest	fair 15
C.hagen	rain 12
Cairo	fair 24
Cape Town	cloudy 20
Caracas	fair 31
Cardiff	shower 13
Casablanca	sun 25
Chicago	cloudy 14
Cologne	rain 15
Dakar	sun 35
Dallas	sun 25
Delhi	sun 32
Dubai	sun 31
Dublin	shower 12
Dubrovnik	sun 22
Edinburgh	shower 12
Faro	sun 21
Frankfurt	shower 15
Geneva	cloudy 15
Gibraltar	sun 20
Glasgow	rain 11
Hamburg	rain 14
Helsinki	rain 10
Hong Kong	fair 28
Honolulu	fair 30
Istanbul	sun 15
Jakarta	cloudy 31
Jersey	rain 14
Karachi	sun 32
Kuwait	sun 27
L. Angeles	fair 19
Las Palmas	fair 25
Lima	fair 21
Lisbon	sun 19
London	shower 14
Lux.bourg	rain 12
Lyon	cloudy 16
Madeira	sun 23
Madrid	sun 19
Majorca	fair 20
Malta	sun 21
Manchester	shower 13
Manila	rain 31
Melbourne	fair 16
Mexico City	cloudy 25
Miami	fair 27
Milan	shower 13
Montreal	cloudy 6
Moscow	rain 9
Munich	fair 16
Nairobi	fair 28
Naples	sun 19
Nassau	fair 28
New York	sun 12
Nice	cloudy 18
Nicosia	sun 23
Oslo	shower 9
Paris	rain 15
Perth	sun 23
Prague	fair 15
Rangoon	rain 31
Reykjavik	sun -3
Rio	rain 26
Rome	sun 21
S. Frsco	cloudy 13
Seoul	fair 18
Singapore	cloudy 33
Stockholm	rain 11
Strasbourg	fair 17
Sydney	rain 20
Tangier	sun 22
Tel Aviv	sun 25
Tokyo	shower 17
Toronto	cloudy 11
Vancouver	cloudy 8
Venice	fair 14
Vienna	sun 16
Warsaw	fair 14
Washington	sun 14
Wellington	fair 13
Winnipeg	fair 1
Zurich	fair 13